



“Century Plyboards India Limited 1QFY22 Earnings  
Conference Call”

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**MODERATOR:** **MR. DHRUV JAIN – AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen good day and welcome to the Century Plyboards India Limited 1QFY22 Earnings Conference Call hosted by Ambit Capital. 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 ‘\*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you and over to you sir.

**Dhruv Jain:** Thank you. Hello everyone. Welcome to 1QFY22 Earnings Calls Century Plyboards India Limited. We have a task from the management side Mr. Sanjay Agarwal - Managing Director and CEO. Mr. Keshav Bhajanka – Executive Director, Mr. Arun Kumar Julasaria – CFO of the company and Ms. Nikita Bansal – Executive Director. Thank you and over to you sir for your opening remarks.

**Sanjay Agarwal:** Thank you Dhruv. Good afternoon friends, I Sanjay Agarwal MD and CEO of the company, along with Mr. Keshav Bhajanka – Executive Director; Ms. Nikita Bansal – Executive Director, Mr. Arun Julasaria – CFO of the company and we have all joined together in welcoming you to the 1QFY22 results call of Century Plyboards India Limited. Hope you and all of your family members are safe and healthy during the pandemic time.

As we stated in previous quarter call, this year has started with impact of second wave of pandemic. Despite the second wave we have delivered good results which are better than our own expectations with the second half of June doing much better with the fading of second wave. It is heartening to note that the residential real estate sales of major nine cities in India in 1QFY22 have only did 18% quarter-on-quarter despite May and first half of June being almost a washout. We thus believe that the demand for wood panel sector is likely to be remain positive in the times to come. We are doing our working internally and we'll come out with a detailed roadmap for next 3 years in the forthcoming 2QFY22 conference call. July 21 too has shown progress with plywood showing a strong a recovery followed by laminate and MDF segments. Our recent initiatives ILP, SFA, ViroKill Technology, fireproof plywood and roping in of Vector agency and BCG for removing the inefficiencies in the system to drive quality earnings growth over the next 3 to 5 years.

Our MDF brownfield expansion at Hoshiarpur has been delayed by one quarter and is now expected to come on stream by 1HFY23. Our South MDF CAPEX has also been deferred a little bit due to delay in getting requisite approvals on account of persistent second wave in the region. Input costs in all the segments have gone up significantly over the past few months. We have largely passed on most of the input costs increased by taking in price hikes across product segments.

As far as raw material certainty is concerned while our Myanmar plant is not doing so well due to the coupe in Myanmar. We have now started sourcing face veneer from our recently

commenced face veneer unit in Gabon in Africa. Our working capital hence increased in Q1 to 108 days and that is largely because of inventory days which has gone up by 43 days. These inventories have already started coming down with demand opening up in July and would further come down by end of Q2. Happy to share that despite the challenging scenario, our team has done an excellent job in maintaining a strict discipline on the receivables which has been maintained at around 52 days. Despite higher working capital days our net debt stands at mere 48 crores at the end of 1QFY22. We have also launched a TVC for laminates yesterday.

With these remarks I hand it over to CFO – Mr. Arun Julasaria, to take you through key financial figures, post which we will be open to your queries. Thank you.

**Arun Julasaria:**

Thank you sir. Good afternoon ladies and gentlemen. First of all I would like to mention customarily disclaimer that this con-call is just to discuss company's historical numbers and future outlook. In no way this should be construed as an invitation to invest in the company. Results for the quarter along with detail analysis has already mailed to most of you and also posted on the stock exchange and company websites.

Just taking you through the macros; our top line on YOY basis has grown by 124% to 448.8 crores against 200.6 crores last year. EBITDA margin was 14.7% at 66.1 crores against 5.4 crores in the same quarter. Profit after tax was 33.8 crores against loss of 8.49 crores in the last year. All segments performed well. Quarter-on-quarter performance had declined due to second wave of Covid and we expect the same to normalize in Quarter 2 as July month has been encouraging.

On balance sheet front, our net worth is now close to 1300 crores. Return ratios and working capital cycle were impacted due to impact of second wave of Covid. We continue to look at the future with optimism and better performance every quarter. With these words I open the conference call for questions and answers. Thank you.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Hrishikesh Bhagat from Kotak Asset Management.

**Hrishikesh Bhagat:**

So, my question is first related to MDF. If I look at the margin performance there has been an improvement sequentially despite a decline in revenue. I understand there is an impact of price hike but just wanted incrementally from here on, I think considering the delay in announcing new capacity, is there a scope for further improvement in margins in MDF or do you think that further price increase or margin improvement will look difficult and will attract new supply from other region?

**Sanjay Agarwal:**

MDF is an area where supplies from other regions cannot be too high. Everybody, if I have some excess material, I will send to other zone. So, I don't expect too much of filtration from other zones. As far as margin is concerned, we follow a system. We practically target a

particular kind of an EBITDA and we try to follow it. At sometimes it's rise a little bit, at sometimes it goes up a little bit but we try to follow the EBITDA. So, you will see that after the initial hiccups and the changes happening in the industry the EBITDA is mostly hovering around 26% to 28% actually. Even coming times yes, there may be some price rise due to the input increase that we have been able to pass on as an when possible. I don't think there will be much variation as far as margins are concerned.

**Hrishikesh Bhagat:** Second question is on the CAPEX on South MDF. Now I know the CAPEX number is yet to be frozen, historically we have been speaking about 550-600 crores kind of CAPEX. So just around it, is there a likelihood that this CAPEX number could remain upside or there is a upside risk to the CAPEX number with the recent increase in input cost? Secondly, has there been any work started on the ordering front for the South CAPEX also?

**Arun Julasaria:** No, I don't think there is too much of a risk of an increase in the overall project cost. Yes, most of the machinery has been finalized but the orders have been posed yet.

**Moderator:** Our next question is from the line of Chetan Gindodia from AlfAccurate Advisors Pvt. Ltd.

**Chetan Gindodia:** My question is with respect to our plywood segment. So, what are the demand trends that the company is seeing in the June month and also in the July month? So, July month have we crossed the last year levels and how are the demand trends now picking up after lockdown?

**Nikita Bansal:** So definitely the recovery in June was much-much faster and much better than what we saw last year. July also the recovery is very-very good and we hope that going forward we will see a good recovery and hopefully growth in the future.

**Chetan Gindodia:** With respect to our MDF margins, so we had earlier alluded that the South CAPEX would be a slightly lower margin business and now that the Hoshiarpur plant has also been delayed, so are we expecting any margin pressure on the MDF business with increasing supply?

**Sanjay Agarwal:** No, but right now you will see because the increase in supply is not happening, so I don't see any margin pressure but yes as and when the plants come up, we see the history in every product that as a new plant comes in, there will be for some time, there will be margin pressure. But right now because these plants have delayed, so they are actually a better thing in the other way that yes the quantum is not coming up but whatever existing we have, the margin pressure will not come on them.

**Chetan Gindodia:** And also, you had earlier said that the laminate business margins of 19% and then 22% that we had seen in Q3 and Q4, these margins will going be normalized. So, laminate business how do we see the margin now, there was increased cost pressure here, so have we passed on the cost increase?

**Arun Julasaria:** Yes. After the latest raw material increases, we had passed it all on in the last quarter itself. But melamine has against spiked and a couple of other raw materials are looking on the high.

So we are looking to take another price increase in the near future. Sustainable margin in laminates as we have stated earlier are likely to be between 15% to 17% and we are working towards the same and we are very confident that we'll be able to achieve the same.

**Moderator:** We will take a next question from the line of Rahul Agarwal from Incred Capital.

**Rahul Agarwal:** Just two questions, firstly could you quantify what is the price hike you took in the first quarter across your four segments?

**Sanjay Agarwal:** All the segments. So MDF, we have taken a price rise of about 4% and in certain two thicknesses we have taken the price rise of about 15%. So, average price rise may have been about 6% or so. As far as plywood is concerned, we have taken about 2% price rise. Laminate I think Keshav will be able to tell better.

**Keshav Bhajanka:** Laminates we have taken a (+3%) price hike in last quarter.

**Rahul Agarwal:** Anything on the particle board side?

**Sanjay Agarwal:** Particle board we have taken only 3%, 3% price hike in the particle board.

**Rahul Agarwal:** So, the reason for basically very high realizations in MDF and particle board quarter-on-quarter, is it broadly price hikes or is it everything else? Was this number normal?

**Sanjay Agarwal:** Actually, particle board even I have not been able to assess the exact reason. The price hike is not really into highs but we see a little bit of a higher realization there but I'm till now not been able to see why. That makes a difference. So, you can say the value-added products are selling a little bit more.

**Rahul Agarwal:** So, any reason for MDF price hike, sorry the realization being higher by 10% QOQ, is that normal?

**Sanjay Agarwal:** Actually, price rise is 4% and the two thicknesses we have taken a higher price rise of 16% or 15%. Even then that does not make for a difference of higher realization. So the reason can be a little bit of a product mix where actually our premium plus product and pre laminated MDF board, so I do not have the quantity but yes those two products make a difference to the overall realization because our premium plus actually is costlier by more than 30% or 25% and so is the pre laminated MDF also. If they increase by even a small percentage it makes a good difference to the total realization.

**Rahul Agarwal:** Lastly any comments?

- Sanjay Agarwal:** I do not have the exact numbers at the moment, so I cannot give you the number.
- Rahul Agarwal:** No problem sir. Just lastly on the Sainik performance, if you can comment qualitatively how did the segment do both in water resistant or waterproof? Thank you.
- Sanjay Agarwal:** Sainik, waterproof.
- Nikita Bansal:** So actually, usually we don't like to share this information but both have recovered well and are doing well.
- Moderator:** Our next question is from the line of Aasim Bharde from Dam Capital Advisors Ltd.
- Aasim Bharde:** I have more broader industry level questions. First one is on the anti-dumping duty decision on same MDF that went against the industry. Could you tell us what may be a thinking of the government on rejecting this one and does it provide any hints on what the government maybe thinking on the other anti-dumping duty in the CVD recommendation?
- Sanjay Agarwal:** CVD is still in the process and no final decision has been taken as far as CVD is concerned and anti-dumping very frankly both would not have come. That was also very clear in our minds. Yes, we were trying for both. We are still expecting the CVD to come in but very frankly if you really see today if you look at Green, they are able to export much more MDF right now from India. So immediately as it is all these duties are not going to make much of a difference to us. Yes, in a long term any such duties help the industry, there is no two things about it. It will help more the people who are into South, again because of the easy approach from exporters from other countries. But to bring it to North India to where we are operating right now mostly, it is not that hurting to us very frankly. So long-term yes and I believe that it does not come today. We will again try may be in 6 months' time or 8 months' time we will again try and we will be able to provide with the ting. CVD, the results would come very soon. Now within next 10-15 days I think we should have the result.
- Aasim Bharde:** Just wanted to understand, would there be any scenario where the government may end up rejecting CVD as well? That's why I actually I was asking as what may be the thinking behind the government decision.
- Sanjay Agarwal:** The thinking behind the government in their mind is very difficult for me to comment on that very frankly. They may be thinking that right now they might have got the.... the export is happening so they might have learned about it, so then why do you need a protection? So, all those thinking maybe going on we don't know. And CVD may be rejected because it is completely Finance Ministry's because everything is now with the Finance Ministry. All the groundwork has been done, every analytical position has been done and now it lies with the Finance Ministry for the approval. It may or may not be approved because it's absolutely open till it happens.

- Aasim Bharde:** Second question actually just for my knowledge
- Sanjay Agarwal:** You must understand that actually at this juncture it is not going to affect the industry too much.
- Aasim Bharde:** I understand that, right now imports are also looking at other markets but just that eventually when markets overall come back into a steady-state balance thing may or may not. I get that.
- Sanjay Agarwal:** And you see the prices have risen mostly because of the logistic cost and the logistic cost from other countries to India are not going to come down so fast. So shipping industry is in absolute high, after maybe 10 years or so or may be 12 or so actually now they are at a high and these products are affected highly by logistic costs actually. Only the logistic costs have gone up by \$40 per cubic meter. They are not going to come down. I don't think until unless the new plants come into production there are going to be much effects on our industry.
- Aasim Bharde:** On MDF pricing, just wanted to understand in a scenario where raw material prices start to decline would the industry also be compelled to pass on the benefit or is it like a pass through...
- Sanjay Agarwal:** This is never a job of cost versus price. It all depends on the market position. If the costs are rising and the new plant comes up at that time, still the prices will go down actually and the margins will shrink a little bit for some time until unless the demand catches up. This is basically pricing is a job in today's times on the market scenario, on the demand supply scenario. If the prices go down the cost of raw material go down but the demand goes up the prices will go up. Yes, what we try our best as and when the prices go up, cost prices go up, we try to pass it on. But that also depends on if today the marketing is good, so we are able to pass it down. The market would have been bad, we would not have been able to pass it on because MDF is still an industry which is maturing. Plywood we have got a branded material, so we are able to pass on as and when the cost increase. In MDF still the branding is happening, it will take some more time before this cost passing on can become an easy job.
- Aasim Bharde:** Last question on particle board, any commentary on the space in general and what Century's long-term plans are in this space?
- Sanjay Agarwal:** I think we haven't spoken every time because going forward we are looking, we are very positive on plywood, so we are expanding our plywood capacity also. We are expanding on MDF also. We have not till date decided but if we go for the UP project then we will be expanding on particle board also. We are very positive in this space. So going ahead and you know that we have finalized the plant and Hoshiarpur is coming up within the H1 next year and South plant also we are very serious. We have finalized everything, the machinery etc. but yes because of the COVID, the land and the government approvals are still pending. We are very positive.

- Aasim Bharde:** The question was, so we keep hearing from you and all industry players about MDF and plywood but nothing more than particle but what I get your point. Thanks a lot for answering all my questions and all the best.
- Moderator:** Our next question is from the line of Sneha Talreja from Edelweiss Securities.
- Sneha Talreja:** My question is more pertaining to the current demand scenario, you rightly said that from June onwards it has started to pick up and July also things can pick up. In last quarter you definitely guided for around 12% to 15% sort of a growth in plywood and again a double-digit growth for laminate. Looking at this current scenario I just wanted to know the outlook for all the segments.
- Sanjay Agarwal:** I think I spoke before also on this. Outlook, are you looking at 2-3 years outlook?
- Sneha Talreja:** Maybe 2 to 3 years.
- Sanjay Agarwal:** Or immediate outlook?
- Sneha Talreja:** I think both should do.
- Sanjay Agarwal:** So immediately yes, we are positive and the markets have really revitalized in all the sectors, I should say whether particle board or MDF or laminate. I think all the markets have revitalized very well. And as far as the long-term is concerned I think by, I spoke in my speech also that by next quarter when we speak at that time, we will have a roadmap which will be present to all of you.
- Sneha Talreja:** In the near term you are positive on this double-digit growth rate which you have already guided in the last quarter?
- Sanjay Agarwal:** Actually, this double-digit thing very frankly, the things are in such a situation that even I think we had a triple-digit growth from last quarter Q1 to this Q1. At this juncture actually to tell you whether double-digit or triple-digit or single-digit has become very frankly, it does not matter very frankly right now. Does it matter? Last year whatever we did I do not know what is the kind of growth the company will get or any company will get. I hope this stabilizes more and then next year we can talk about the single digit or double digit.
- Keshav Bhajanka:** One more point. The third wave is a completely unknown quantity. So, because of that it will become little difficult as the MD has already said, we are very bullish going forward but again these are certain things that are outside our control.
- Sneha Talreja:** My second question is actually related to the MDF segment. Just wanted to know your percentage of sales coming in from the West market. Secondly, you definitely highlighted with more number of players coming in you see pressure on margins coming up. That was second

that what kind of a pressure do you see in margins coming up and thirdly since your capacities are getting delayed would there be a challenge in supplying material in let's say next year before your new South plants comes up? Is there any arrangement that you can go to some other players? For the time being the fill in the market that's the third one?

**Sanjay Agarwal:**

At this juncture nobody will be ready to supply to us because everybody if I am getting Century Ply is getting this kind of a market reaction and we are able to sell. Nobody else will want to supply to us. Everybody wants to stay with their markets. The question of getting the supplies from anybody else does not stand right now. Number two, is actually whether the market will have 4 days of product. You see in South Rushil has just come up. And I don't think they have been able to consume their total capacity. I really don't see much of a shortage but as far as North is concerned, I see that North presently does not have a shortage of supply. And by the time there will be a shortage, I believe that our plant will be in production, by H1 next year. So, our plants will be in production. As far as South is concerned, by the time the capacity is created by Rushil is completed, I think our plant will be almost there to come up that is 1.5 years from now, we should say that, that is the situation. I don't see that there will be a shortage of material. Yes, there is always a little bit of either we have an excess production or we have a little shortage so that situation would go on depending upon the plant utilization, because of internal problems. Otherwise, I don't see much of a, neither downtrend or nor any uptrend.

**Sneha Talreja:**

Also, lastly in case you can just provide the geographical mix for your MDF sales?

**Sanjay Agarwal:**

Geographically we usually do is 70% sale or 72%-73% sale is done in the North. Rest of it is divided in East-South and West. If you ask me a question that, why do we supply from outside North? There are products which are very good which pay us very good margins and which have got very good sale in other geographies and we have identified thicknesses and we have identified products in other areas which we sell into other areas. Yes, along with that our regular product also goes but it is always good to be in the market. If we once go out of the market then again when our plants have come up, at the time to get into the market will be very difficult. We try our best to sell most of our product in the North only because of logistical costs.

**Moderator:**

Our next question is from the line of from Chirag Shah from Value Quest.

**Chirag Shah:**

In terms of your new capacity coming in, by when North and you expect to start commercial production and South you said there's a delay. By when currently you are expecting that this plant will be on line?

**Keshav Bhajanka:**

With regards to North plant, we will be in production H1 of next year. The basic July as we all know is due to COVID and due to unprecedented circumstances that have been caused by COVID. With regards to the South plant, it is taking a little longer because getting the government licenses etc. is proving to be a little tricky because of the COVID scenario again.

But I am sure that once we are able to get the licenses and the land approval, post that within 18 months we shall be able to commission the capacity.

**Chirag Shah:** North when you say H1 we should assume around Q2 end, is that a fair assumption?

**Keshav Bhajanka:** It will be within Q2. We are going to try to bring it early. There is a little bit of variability at this point in time.

**Chirag Shah:** On MDF annual volume guidance if you can throw some light, how is the demand trend etc. Because if you see Q4 you were running at almost optimum utilization. I understand in Q1 there were disruption and because of which volumes got impacted. Currently looking at the situation how you look at annual volumes panning out for this year?

**Sanjay Agarwal:** We have our plans of our AOP in all operating plan but then the first quarter has been washed out. I think June was yes, we were practically not exactly back to normal but yes quite near to normal July has done better, August is doing better. Again, a third wave is expected. Do you think that it will be wisdom on my part to actually give you a number right now? I don't think so. This will all, whatever I give you has no base. We want to do much better that and the factory is running at full capacity at the moment even if there is some gap in the manufacturing and sales so we increase our stocks or decrease our stocks accordingly but we try to use the manufacturing capacity to its maximum.

**Chirag Shah:** In terms of realization, so whatever realization you did in this quarter is it a sustainable number going ahead?

**Sanjay Agarwal:** See, again I think, I have told that we go by always we fix a percentage and EBITDA we have fixed for MDF is 26% to 28%, we will hover around that. The prices etc. everything will depend on the market. We try our best to maintain between this 26% to 28%. When the new plant will come up, at that time it may go down also. I am sure it will go down very frankly which will again over a period of a year or 6 months when the capacity will be consumed by the market, it will again and you have seen all that ups and downs of MDF you have seen. When our plants came out and when the Green South plant came up at that time the EBITDA really went down. We all had the price decrease in the market and then again, we have been able to come up so the cycle will keep on repeating itself.

**Chirag Shah:** What was the domestic consumption of MDF in FY21?

**Sanjay Agarwal:** Very frankly I don't have any number at the moment.

**Chirag Shah:** Total industry consumption?

**Sanjay Agarwal:** About 1.3 million CBM but very frankly I am not so sure. These are all numbers which we actually do an estimate sitting on our table. Around 2,500 crores and 1.3 million CBM but then I cannot really say that yes this is the number.

**Chirag Shah:** In terms of input can you help us if the number, gross number if you would have. What would be the import in FY21?

**Sanjay Agarwal:** Since last 1-1.5-year imports have practically negligible and I think it could be near to. Earlier it was 2,50,000 cubic meters but I don't think now it is anywhere near even 2,000 CBM also.

**Moderator:** Our next question is from the line of Sonaal Kohli from Bowhead.

**Sonaal Kohli:** The first one pertains MDF market. As you said that we had seen more cycles and when we came up with capacities and there was a price war. Any reason for you to believe somewhere in 2024 when your plants come up, there's a structural or a fundamental difference where the intensity could be of that range or less than that range or higher than that range and what is the base case assumptions?

**Sanjay Agarwal:** I am unable to hear you clearly. Can you do something with your phone?

**Sonaal Kohli:** As you mentioned that we had a cycle when you expanded capacities and then there was price war in industry. One of the key concerns with everyone has is that the that every player setting up capacities now Greenply also announced we may get back into that kind of situation. What I wanted to ask you is that what do you think is different this time? Or do you expect the intensity to be of similar magnitude and if different what is the reason why you feel it to be very different is the demand-supply mismatch likely to be much less or what could be different and since we are setting up capacities what kind of margin assumptions but you would look at in line?

**Sanjay Agarwal:** How this is done is different I am saying. Today suppose if the total capacity consumption in India is say 1.3 million cubic meters, say 3 years back, it might have been maybe only 0.5 million or 0.7 million. We expect that yes in say next 5 years' time this 1.3 million tons actually will become maybe 4 million tons or 5 million tons. The capacities will have to re-established by different players in different zones. There will always be periods in between where there may be some excess capacity. At that time there will be a fight in the market and the prices will go down. I think that happens with every industry, every time but it's still the growth like in cement you have seen how the cement has grown from whatever to today more than 500 million tons capacity, it has gone of 600 million tons capacity it has reached. Similarly, I expect that this 1.3 million tons will go to 4 to 5 million tons in 4 to 5 years' time. If it is going there or we have to pass through all these stages but those who actually fear that there will be a problem and we will not be able to sell or the pricing will go down, they will not establish the capacity and after think after 5 years what happens? When consumption is 5

million tons, 5 million cubic meters, at the time still you are a very small player. By this way of increasing and facing the cycles in the market at that time we will be a large player.

**Sonaal Kohli:** What would be the sizes of market for the long year like let's say 2019 was the last long year we had and out of this 1.2 million is India's production or its India's consumption of imports.

**Sanjay Agarwal:** Consumption.

**Sonaal Kohli:** Out of which imports would be how large?

**Sanjay Agarwal:** I don't think there is much import.

**Sonaal Kohli:** But this would not being a normal consumption because your first quarter would have been a wash out last year for all the players?

**Sanjay Agarwal:** But then actually at that time then later on when the COVID went away the demand actually increased and it covered up for that gap. We should not say, yes it may be a little lesser than usual but yes not much of a difference of a 50% or 40% or 30% like that.

**Sonaal Kohli:** And as a base case, are you expecting a 20%-25% growth or what is that you have in mind on an annualized basis for this industry?

**Sanjay Agarwal:** Next quarter I am going to present you a report where actually we will tell you about what are our plan in next 3 years' time. Maybe we will try to include a little bit of industry scenario there also. We will try to include a little bit of industry scenario. So that may help you better but right now if you ask me, to tell you see generally yes, we are expecting MDF to grow by 15% to 20% every year. There is no doubt about it but then we are doing some strategy and I think we will present you better number next time.

**Sonaal Kohli:** Secondly on your plywood business what kind of long-term margins are you targeting now or that also you would like to share post Q1 only?

**Nikita Bansal:** We will share that post Q1 but roughly it will be around in the range of 13% to 14%.

**Sonaal Kohli:** My last question considering when you come back to your normal, let's say no COVID wave or if there is a wave it's gone, you come back to a normal quarter. And there has been lot of raw material inflation. Considering all these factors and pricing power and one-offs in Q4, when you come back to a normal quarter, would you expect your overall EBITDA margin to be higher than what you reported in Q4 and as revenues or lower than that because there were too many adjustments in recent past so as market participant, it's a bit difficult for us to analyze that data. There were employee costs which will further increase also.

- Sanjay Agarwal:** Frankly even for us yes, we also expect that yes, the price rise we have taken because of the costs, the prices will go down. We also expect and our margins also should go up. But all these are too dynamic at the moment and the logistics has created such a huge problem across the world. It is not only us but in every area you see. So, which is yes, very difficult, at the moment to forecast. You have seen in every other discussion we ever had we have always been able to tell you a very specific number but at this juncture to tell you, yes you also expect that the cost should go down. The input cost should go down, the prices of chemicals and timber in the Q3-Q4 should go down and our margins should improve. That is what we also believe and we want but to tell you that it will happen is a very difficult thing in this time range. Yes, I am very hopeful.
- Moderator:** We will take our next question from the line of Achal Lohade from JM Financial.
- Achal Lohade:** My question is with respect to the distribution side. I recall that you were trying to rework or make some changes at that under-distribution side for the plywood. Can you help us understand where are we and what kind of benefit have, we realized of expect it to come in or whatever 12 to 18 months?
- Nikita Bansal:** I think what you are talking about is that we were trying to go to III Tier towns etc. Is that what you are talking about or because you cannot change the model of distribution.
- Achal Lohade:** They have something Go-to-market strategy as well, if I recall this with the distribution?
- Nikita Bansal:** So, see these strategies is in place and we are working it's there, it's happening in one or two branches and then we will roll out to other branches but this is something that takes time. I don't think such changes can happen overnight or even for that matter, can happen over 6 months. It's a journey of 2 to 3 years where you will see a change that will, in how our industry is going to start selling and we are hoping that we are the leaders and because of that we will be the one who will change this industry.
- Achal Lohade:** In terms of normal, not for the quarter but in general what is the contribution from Tier III towns and below or can you split if you could help us, broad color?
- Nikita Bansal:** No, it's very tough for me to give that number.
- Achal Lohade:** My another question was I recall last quarter we had talked about some study where we have appointed a consultant in order to look at the cost optimization. Any perspective, any color you could provide on that?
- Keshav Bhajanka:** We had a point of BCG, towards cost optimization and the results have been very good. It's difficult to quantify as in because the first quarter in operations was highly disturbed quarter on account of COVID but I am sure that long-term the benefits will be very substantial.

**Achal Lohade:** Would you able to give some sense in terms of what kind of benefits we should have in terms of either asking it or percentage?

**Keshav Bhajanka:** We have incurred a cost of about 9 to 10 crores on the entire size and I believe that we will get at least 2X in terms of annual returns going forward.

**Achal Lohade:** Another question with respect to the given the cost inflation, given the supply disruption etc. have you seen disruption at the unorganized and are they coming back or we are still pretty much severely impacted in the plywood business?

**Keshav Bhajanka:** I think all across you would see that there's tremendous pressure on the unorganized sector and the plywood, laminating so on, so forth aren't very different. They are taking a lot of time to get their working capital cycle back on track. They are taking a lot of time to get production back in track. One thing that we have done we took a huge call to continue production during the COVID month as far as government guidelines permitted. And because of this I think we are in one of the best positions in terms of inventory that we have been in our history. I think going forward this is going to be an opportunity for us.

**Achal Lohade:** Just a clarification, I think Sanjay ji talked about UP project, so with respect of particle board related question. So just sort of checking, is there a possibility of UP project revival or we have kind of finalized this out?

**Keshav Bhajanka:** That was dropped. We have never dropped the UP project. That's the question of timing. So of course, over the course of time you cannot do 10 expansions in just one go but UP as government dropped, it was a very lucrative ventures and it has been postponed to maybe 2 years-3 years later because of the licensing issues etc. that are took place. Going forward when do establish UP definitely there will be a scope for particle board in UP.

**Achal Lohade:** Sorry I am just digging in into that. With respect to, if I recall it was a combination of a particle board and MDF and given you are setting up we are adding a Brownfield expansion in Hoshiarpur and large part will be in downtown. Would there be a need for a MDF in your opinion and in next years' time or can it be a standalone particles board project?

**Keshav Bhajanka:** China's MDF consumption is 40 times that of India. And we start working on a project 3 years from now, it will take at least 4.5-5 years to come to completion, I think there is ample scope. Going forward we will definitely chalk it out as the MD has said. We will be giving the projection for the foreseeable 2-3 years in the next quarter.

**Moderator:** Our next question is from the line of Jignesh Kamani from GMO & Co.

**Jignesh Kamani:** Just wanted to check on the MDF side. So, under plain MDF your realization is up by around 10% quarter-on-quarter versus 4% to 6% price hike. So fair to assume there in fourth quarter also we took a price hike and it was more back end enhanced or 10% price hike was

combination of both fourth quarter and the first quarter. That's why q-o-q price hike increase, realization increased 10%?

**Sanjay Agarwal:** I just told that in Q1 we have taken a price rise of about 4% and in two thicknesses we took about 15%-16% price rise. So, the average price increase may have been 6% or 6.5% and maybe there is some impact of whatever price rise we took in Q4. They were also in different-different stages and times. They have been into full impact in. This I am telling is only because of my hindsight that do not have a calculation in front of me. We have not calculated it. But yes, these are the only reasons and some reason could be the sale of a little bit of higher quality product like our plywood plus and...

**Jignesh Kamani:** I want to know mainly on the plain MDF not on the pre laminates where there is a 10%?

**Sanjay Agarwal:** Frankly I have not seen the data into the depth, so unable to really tell you.

**Jignesh Kamani:** Second thing in extension of that; we reported a highest gross margin in the MDF, 43%-45% versus even 40.7% last quarter and much high. So, this kind of gross margin is sustainable in MDF and to extension of that operating margin, we reported around 28% despite lower volume again this quarter so assuming that if we run to 100% of volume in normal non-COVID times then margin can touch to (+30%) considering we already did a 28% this quarter?

**Sanjay Agarwal:** What the BCG project was mostly around MDF. We certainly do hope that we will get a jump, a little bit of a jump but still I will maintain what I said earlier that we work around this 26% to 28% EBITDA and we try to ensure all the machineries in the company come into full action when there is a when it takes one change is there in this. If the BCG project is sustainable and we are trying our best to sustain it then yes it should go up a little bit.

**Jignesh Kamani:** So current gross margin of 43.5% is sustainable right?

**Sanjay Agarwal:** I am looking at basically this EBITDA of 26% to 28%, it may go to come to 29-29.5 or maybe whatever. So yes, what you are saying is also a sustainable because it is related to.

**Jignesh Kamani:** Is there any further pressure on the input side which might force us to take a price hike or now with our current price hike of 4% to 5% which we took on first quarter in put everything is normal now.

**Sanjay Agarwal:** Presently yes, it is normal but as a manufacturer we are always trying to increase the price by 1%-2% you know there is a small increase of 1%-2% do not hurt the market they are very easily accepted and if duties would have come it would have been much easier for us to implement the price hike and if it does not come like CVD and anti-dumping has already been canceled and the CVD does not come then it will be difficult for us to improve our prices. But yes, we are already my thinking is that we will be able to improve a little bit.

- Moderator:** The next question is from the line of Praveen Sahay from Edelweiss Financial.
- Praveen Sahay:** It is related to price hike so in the plywood segment as you had already said that 2% around of a price hike you had taken but the two of your smaller division in the plywood segment only Décor Ply and the commercial veneer sequential side on the YOY side the relation were down. So, is there any different color on that?
- Sanjay Agarwal:** So, the commercial veneer at some time Century Plywood was the largest commercial veneer making company in the country. Whether we were the first one to start in India with imported logs but now practically it's an insignificant area for us. We only focus on our own raw material procurement; so that we are not heart our plywood manufacturing is not hard. That's why we put up the unit in Myanmar and that's why we have now because Myanmar after the problem with the coupe, the supply or the running of the unit is very difficult. So now we are getting most of our supplies from our own unit in Gabon. So commercial veneer is not important to us and the price change is because we have the material coming from Myanmar was better than this but was little costlier and the material coming from Gabon is actually Okoume based which is little cheaper. So, the per cubic-meter prices will go down but yes that's okay. It's not our focus at all in anyways. As far as the decorative plywood is concerned, I will request Keshav to answer.
- Keshav Bhajanka:** So, in decorative plywood, the product mix has changed. During the first quarter lower price products have foregone and as such there is a drop in realization. Going forward I do not see this lasting but maybe for another quarter realizations might be a little subdued.
- Praveen Sahay:** The next question is on the MDF. As Keshav has also highlighted that China is a 40X of India in the consumption side, we are very small in that. Another the side multiple times you had said that whenever there is a new capacity come in the prices go down. If there is a demand in the market and that's a huge demand in the market then if some capacities are coming why the prices expected to go down or in the past has it gone down?
- Sanjay Agarwal:** You see the demand and supply gap cannot be equal to the new plants the new plants are of 600 to 800 cubic-meters per day and they are mostly of this capacity will be consumed in that zone. If the plant comes in southern zone that most of the capacity is supposed to be consumed in southern zone actually. So, the chances of prices green down when a new plant comp up is very high. Yes, it may not happen if the market actually absorbed it yes it may not happen. But if you ask me the probability, the probability 80% of the time the prices will go down and 20% or 10% of the time prices may not go down. When our Hoshiarpur plywood MDF unit came up at that time the prices did not go down, but the moment Green's unit came up in the south at that time it fell because they stopped supplying all there not finished products into south totally they stopped whether they started exporting from south zone to north zone. Then the prices went down. So, what you are saying is also right because when the century's plant came up at the time the prices did not go down because the market immediately absorbed it.

- Moderator:** The next question is from the line of Shanti Patel from Shanti Patel Investments.
- Shanti Patel:** My question is market share in the respect of various verticals in India and who are our main competitors?
- Sanjay Agarwal:** You see in organized market if you were talking as far as plywood is concerned, we've a 30% market share in organized plywood market. If you're talking overall plywood market maybe we have about 6% market share in the country. As far as laminated is concerned Keshav can you answer.
- Keshav Bhajanka:** As far as laminated is concerned, we would have close to 78% of the overall market share and we would have (+25%) on the organized market share.
- Nikita Bansal:** The competition that we have is Greenply, is our only competition in terms of national player otherwise there is some competition in terms of regional players but more is in the unorganized sector that is why we launched a brand called Sainik in plywood which we are trying to compete with the unorganized sector.
- Shanti Patel:** After GST came into picture what is the scenario the things are improving for organized sector or it is as it was?
- Sanjay Agarwal:** You see after GST we expected the change to be larger but yes it has not happened to the extent, we expected but we see till now the government has started that permit system also a road permit but that is only applicable to very big players. As soon as that it starts coming down to 50 crores or 20 crores or 10 crores annual then it will make a bigger impact on them because right now even the smaller even today are able to sell it without the GST also, because in plywood even the final buyer is very happy buying it without the GST. So, when the person is investing in his own house at that time, he is very happy to buy your plywood without paying a GST. So, he's able to save some money. It is actually happening from top to bottom and only the road permit is one area which can probably do some more help to us. But in the present situation you see because of the logistic is known because of our advertising the market is changing but it is not changing very fast, it is changing very slowly towards the organized player.
- Moderator:** The next question is from the line of Karan Bhatelia from Asian Market Securities.
- Karan Bhatelia:** I just wanted to understand what is the price difference now between the imported MDF and what we are able to sell in the domestic market, just wanted to understand the delta now that the international prices are also perming up?
- Sanjay Agarwal:** Actually, I don't have the answer very frankly I do not have the right answer to give you because plywood is now MDF is being exported from India in a large number and Green is

exporting and there are practically no imports. The price of MDF is hovering around 270-275 per cubic-meter. So very frankly I don't have the number at the moment.

**Karan Bhatelia:** One more question, now with already export is of the second quarter, so apart from the price hike that we have already taken. Have we taken for this quarter as well or are we planning to roll out in the near future?

**Keshav Bhajanka:** We had just taken 2% and by the time we take another price rise and I don't think this quarter should be impacted much even if we take it.

**Karan Bhatelia:** And trying to understand the July numbers, so are they better on a YOY number and as well as on the July, 2019 normal month?

**Nikita Bansal:** Very much. The recovery last year was far slower and the recovery this year is much-much better, the sort of recovery we saw in September-October is what we have seen in June and July.

**Karan Bhatelia:** So, are we back to the July '19 number simply is what I want to understand?

**Nikita Bansal:** Yes, definitely.

**Moderator:** Thank you. Ladies and gentlemen that was the last question; I now hand over the floor back to the management for closing comments.

**Sanjay Agarwal:** Friends thank you so much for joining the call and taking out your time and listening to us and hopefully we will see you next time for our Q2 earnings call. Thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.