



“Century Plyboards Limited  
1QFY2019 Earnings Conference Call”

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*Century Plyboards Limited*  
*July 25, 2018*

**Moderator:** Good day ladies and gentlemen and a very warm welcome to the Century Plyboards India Limited 1QFY2019 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. 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. Prateek Maheshwari from Ambit Capital. Thank you and over to you Sir!

**Prateek Maheshwari:** Thank you. Good day everyone and a very warm welcome. Today from the management we have with us Mr. Sajjan Bhajanka, Chairman, Mr. Sanjay Agarwal, Managing Director, Mr. Keshav Bhanjanka, Executive Director, and Mr. Arun Julasaria, CFO. Now we will begin this conference with opening remarks from the management following which we will have the floor open for an interactive Q&A session.

I would now like to hand over to Mr. Sajjan Bhajanka for his opening remarks. Over to you Sir!

**Sajjan Bhajanka:** Good afternoon. I welcome everybody to this conference. Before I hand over to Mr. Julasaria I would like to narrate general outlook. You must be curious about the impact of the GST and e-way bill. So now both the things are in place. GST at the rate of 18%, it is almost stabilized and e-way bill, which is now fully effective on plywood, so as far as GST rate of 18%, this is very much positive because earlier our implication on our company was around 28% to 30% in the various states.

This is a positive thing and it is given us a level playing field. And you might have seen that our result like the contribution of plywood is substantially increased. So it is mainly due to the pressure on the prices to some extent raw material prices have come down, core veneer prices now particularly have come down because the unorganized player, their capacity to pay more so raw material has decreased. And e-way bill, yes still challenges are there, still people they have some methods to build the e-way bill system, like short distance they use trucks and they multiply two, three times under several e-way bill thereby they manipulate and again the under variation is very rampant. So the government like in various other states they have organized raids and other things and in plywood also in Punjab and government conducted raids on certain manufacturer. So maybe as checks and majors are strengthened b things would improve in our favour.

All other sector we have done well. Decorative veneer was we have phenomenal this time. We had brought value wise growth and profitability also increased and laminates yes there

was some pressure on the prices because of the petroleum products and more particularly the phenol and these price regime, so the margin is skewed a bit. So it has done well. There is quite progress on that. This is general outlook.

Myanmar is not doing well because of the government intervention they had taken the operation in their hand and by the time, they bring out the material for auction and to our mills, it deteriorates substantially and which is no more profitability for face veneer making. So we are maybe thinking for economy, our Myanmar unit and there is not they have land distinguishing on rent, so that you can handover that and the machines we can bring to India.

Laos there is some rethinking on the part of government because this was the prime veneers because the Laos timber and this thing so gradually they have opened all other timber products to be exported except low base veneers. Veneer also they have opened core veneers made out of timber. Since we are hopeful something would be done in very near future and as far as our own effect on the face veneer mainly we are managing from the timber we will get from Solomon Island, which is again 40% or 50% cheapest than Keruing and we are getting all our requirement met through the veneer produced from Solomon and in the nearby we are targeted getting veneer from Gabon. That is another variety Okoume face veneer so which is now used by all the people and our competitors they were operate extending is the Okoume so we have not shifted the Okoume but we have started trading of Okoume veneer so we have buying veneer we are in shifting of Okoume veneer and we have been marketing it because our own availability of face veneer from Myanmar and Laos is not there so just to bring our mechanism hence it is always the extinct for veneer marketing. So we have started when this we planned to some substantially increase this is giving us independence of it like to importing veneer from Gabon and marketing to Indian customers. So that is I think can help all of you and I will now hand over to Mr. Arun Julasaria for his opening remarks and general interaction.

**Arun Kumar Julasaria:** Good evening ladies and gentlemen. First of all I would like to mention customary disclaimer that this concall is just to discuss company's historical numbers and future outlook. It should in no way be taken as an invitation to invest in the company. Results for the quarter along with detailed analysis is already emailed to most of you and also uploaded on the stock exchange and company website. I think most of you have gone through it. So I will not take much of your time and take you through on the basic numbers and macros.

On year-on-year basis overall net revenue including other operating income increased from Rs.438.6 Crores to Rs.537.26 Crores with a growth of 22% out of that 22% growth around say 15.92% growth going from MDFs and balance from other expenses.

Blended EBTIDA margins improved from 14% to 16.2%, EBIT increased from 11% to 14.2%, PBT improved from 9.6% to 11.7%, PAT increased from 7.8% to 8.4%. Primary contribution for incremental profit margin is from plywood segment.

From this year, we have viewed and changed method for arriving depreciation from written down value method to straight-line method. This change has resulted in positive impact on EBIT therefore the low depreciation of 14.7 Crores.

Segmental effect on MDF was 7.72 Crores, prime at 2.63 Crores, laminate was 2.04 Crores, particleboard was 1.8 Crores and balance was mainly on account of logistics.

Now the company had two units in Assam one was set up 10 years back and one two year later. The tax exemption for units at ten years before that over last financial year, but new unit would entitled to get exemption for eight more years including current financial year.

Now as the activities at new units are ramping up, that the tax rate of the company on overall basis is now higher to about 28% compared to the 19% last year.

Going forward tax rate will depend upon change in revenue mix and revamping of MDF & New Assam Unit production but expected to be lower than 28%.

As we have accumulated MAT credit, cash outflow on account of tax will still remain at MAT or 22% approximately. The profit for the quarter has adversely impacted in this tax evasion. During the quarter adverse impact on account of foreign exchange was 13.11 Crores out of such 13.11 Crores 6.62 Crores we taken as borrowing cost and balance 6.49 Crores has impacted EBITDA margins.

Out of total 13.11 Crores, 2.03 Crores is realized loss and balance 11.08 Crores is mark-to-market loss or notional loss. In order to bring this also and some products various movement we have reduced our foreign exchange exposure by almost 33% that is from INR equivalent 365 Crores on March 31, 2018 to 243 Crores on June 30, 2018. We have reinstated our liability, on the basis of 68.58 per US dollar and 79.85 per Euro. Out of total exposure of our earnings 88% plus in US dollar and balance are mainly during Euro. As on date almost all of our exposure is unhedged.

Now if we come to segments, the volume of plywood increased by 8%, the value growth increased by 3%, difference due to change in product mix, we are now focusing more on mid segment products whereas growth potential is better. Overall, plywood segment is showing marginal degrowth because of substantial lower sale of commercial veneer. The

profitability of plywood segment has gone up to the combined reasons of getting back profitability at our Guwahati or Assam factory, lower ad spend, change product mix, better profitability in our decorative veneer and reduced cost of veneer, we expect to achieve 16% to 16.5% EBITDA margins in plywood segments for whole year.

The value growth in laminate division was 30% and value growth was 27%. Profit margins were under pressure primarily due to increase in raw material cost, which is yet to be fully passed on. With the new line operational the capacity for the laminate for this quarter were at 85%. With ramp up of more capacity and improvement in realization we expect profitability in the laminate segment to improve from Q2 onwards.

MDF division operated at 66% capacity. In view of introduction of new capacities in the market, we have now focusing more on capturing market share rather than profitability. We have also introduced some technical changes, which will bring down our chemical and power cost, effect of which is from Q2 onwards with savings on account of chemical and power cost and also expected ramp up the production, we expect profitability improve from Q2 onwards.

Y-o-Y basis particleboard performance had improved substantially and was reached to the desired EBITDA margin above 25%. The primary reason for improvement in profit margins were more focus on prelaminated board, which is a value added product and sharing of marketing cost, which is new operational MDF. We expect to maintain these profit margins in coming quarters.

In logistics business apart from stable operation we also had exceptional income of about 3.5 Crores on account of SEIS license entitlement and ground rent refund which added to the profitability of the quarter. Going forward the business is expected to remain stable.

On balance sheet the networth of company has gone up from 838 Crores to 883 Crores. Although full potential revenue from newly set up units is still to come but ROE has improved to 21% and ROCE has improved to 22%.

On debt side even after taking the major capex, the company is still very low geared with long-term debt upon equity ratio of merely 0.26 against 2 accepted by bankers. All the sectors of blended working capital cycle have shown improvement because of MDF which is the lower working capital-intensive business. Cash conversion cycle has gone up mainly because of reduction in buyer's credit liability. Last year the liability is reduced to do this company from foreign exchange rates.



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With these words, I open this conference call for questions and answers. As promoters are in the call, I request you to focus more in quality questions. The numbers can always be referred to us separately. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** Thank you for the opportunity Sir. My question was pertaining to the plywood segment. We did indicated in the last call that the growth in the first quarter could be 8%, 9% but it will improve and we are looking at double-digit growth so wanted to reassess that aspect now what is the kind of growth are you looking at for the balance nine months and also in terms of the profitability is there any has the margin improvement largely led by the reduction in the A&P spend?

**Arun Kumar Julasaria:** You are talking of plywood.

**Achal Lohade:** Plywood business Sir?

**Arun Kumar Julasaria:** First quarter we expected about 8%, 9% and I think we are around that 8% will improve and for the second quarter onwards yes we do expect that it should cross double digit maybe 10% plus to the extent, which we are still quite hopeful and our endeavors actually are now seeing to be as far as the market is positive because of the GST changes and whatever records we have taken introducing the mid segment plywood or the PVC all these things are working very, very positively so we are quite positive about it. As far as the profitability is concerned profitability, profitability I think because of basically two things. One is we have some price reduction in way of the input as far as the code is concerned and the other thing because we had this faced veneer we were selling the face veneer which at times used to be profitable, at times not so profitable and that had now reduced so that is the second reason and the third reason is we have increased prices in the month of December and then again in the month of May. Of course we are unable to take price rise as earlier we use to take 5% price rise and now a days we take very small price hike at 2.5% and 2% only so we have implemented the second periphery also and all the three reasons basically constitutes the better profitability. I think in our last call also we said that we are working. So we will be able to 16.5% or 16% I think this is the range we will work to be in.

**Achal Lohade:** 16% to 16.5%.

- Sanjay Agarwal:** Above 16% it may be a little minus, little plus which all those things are being kind of control too much, it can go down a little or it can then go up.
- Achal Lohade:** Correct but there is no reduction in the A&P which has boosted the margin. Has there been any reduction in the A&P.
- Arun Kumar Julasaria:** Advertisement actually even last year also we had done a little lesser advertisement and even this year we are focusing totally on growth of our retail and our employee expense. So we are really avoiding any advertisement cost for this year also and it will depend on our competition activity. The competition will become too active in the market maybe we will have to go to advertising otherwise we will still this year also we will try and our focus because it is not only a question of money we need to put in our effort also and the effort we want to put up our efforts into our channel implement and our influencer segment there. We are working very hard and I will tell you the results I am getting are now really good. Now the TOC is really, really working well for us so I think by this year-end I think we will be able to show you a little different kind of a growth.
- Achal Lohade:** Sorry this TOC is only for the plywood or it is across the segment.
- Sajjan Bhajanka:** No, it is for both plywood and laminate. For MDF, we are now starting, but it will take some time now.
- Achal Lohade:** And where are we in terms of the implementation of this TOC? How much of the distribution is already covered and what benefits are we looking at?
- Sajjan Bhajanka:** Literally I could not get the question can you repeat the question please?
- Achal Lohade:** Yes, so I was asking how much of the distribution we have already covered in the new TOC?
- Sajjan Bhajanka:** Right now see we are working this TOC basically in two branches one is our Lucknow branch so we are quite happy. There are two parts basically. The two positive it is one is the supply chain which is across the country we have implemented in all the plants and all the branches and as far as the self TOC is concerned that we had applied in only into two branches one in Lucknow and Mumbai from both these branches are now doing well they are stabilized and we had now made a plan to cover the whole country in next about nine months time we will be able to cover the whole.
- Achal Lohade:** And what is the benefit you are looking at in terms of qualitative or quantitative aspects?

**Sajjan Bhajanka:** This is quantitative growth. Instead of getting a 10%, we will get a 16% growth or 17% growth that is what we are looking for. Until unless you see there is no point in talking until, unless we are really doing it you see. So we hope that it will happen and we or we have been very, very hopeful on the from the results we have seen in these two branches in next quarter and the next quarter even we bought in and we have not actually probably witness it.

**Achal Lohade:** Second question if I may Sir, on the MDF part, we earlier were looking at a strong growth as well as margin improvement; however, we see that margins have actually come off quite sharply a) what is the reason for the margin contraction; and b) how do you see the growth as well as margins for MDF business?

**Keshav Bhajanka:** You see the reason for the margin contraction is that in the market realizations of all. Now there is a lot of competition that has come in and due to the same realizations have fallen and 5%, 6% over the course of the last quarter, bit because of this EBITDA for the MDF business has fallen and having said the same in terms of volume we actually growing at quite a healthy pace at least that we have had a close to 10% growth in terms of revenue and considering the fact that Q4 is usually a higher quarter and Q1 is basically a slow quarter we are very bullish on our basic ramp up volume of MDF and ideally we are closure to the end of the year we should be looking at a 80% plus capacity utilisation.

**Achal Lohade:** And what kind of margin we can look at for FY2019 as a whole?

**Keshav Bhajanka:** See we are working on a number of measures for cost reduction assuming the prices do not fall substantially below this point, I think we will look at 15% EBITDA margin blended for the entire thing.

**Achal Lohade:** So I just had a theoretical question if it is a 15% margin the RoCE could be in single digit and would you see that that would be the case even with our peers and hence the new capacity expansion maybe is very, very limited going forward?

**Sajjan Bhajanka:** For time being we are holding the new capacity expansion just because in last year and a half, the plywood the MDF capacity in India is more than doubled. So market cannot grow at that pace, so like earlier we claimed to put up a line of 400 cubic meters for the thinner material. So time being, we are keeping it in on us. So first we would like to these two stabilize and to run at 75%, 80% and as Keshav explained we had taken many cost cutting measures with some this special equipments for glue we have installed which will reduce our glue cost by 20%, again with this some notification with the plants, which reduce our power cost to 20% and like the logistic and other things and we had borrowed very limited

amount for this project. Mostly it has been taken care from the internal accruals, at the moment, our outstanding on account of MDF is investing 150 Crores; term loan on account of MDF so that way we are cutting on the interest cost also.

**Achal Lohade:** Understood. Thank you so much for the answer Sir. I will come back in the queue for further questions. Thank you.

**Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah:** Good evening. Sir on the laminate side the volume growth has been pretty robust probably because of the capacity being enhanced but can you give some sense as to where the growth has come in is it from exports or is it more domestic led?

**Keshav Bhajanka:** Regarding the volume growth you see last year Q1 was particularly board, same way that GST has coming in from the 1<sup>st</sup> of July and the GST rate was at 18% so in the month of June there was practically no offtake, so this is one reason that has led to a very high or a very good volume growth. The volume growth has primarily come in the domestic segment. The volume growth in the export segment is slightly subdued. The reason behind this is that first quarter we had several supply issues and going forward the supply issues are being resolved. So for the remainder of year, I think that we should have a similar growth to what we have curbed now. Margins have been slightly under pressure vis-à-vis raw material cost hike, but we have taken a price increase in the previous month itself. Going forward I believe margin should be at least 300 to 350 Crores higher.

**Nehal Shah:** What has been the price increase in June?

**Keshav Bhajanka:** 3% plus.

**Nehal Shah:** And what is our guidance for the year in terms of revenue growth and margins.

**Keshav Bhajanka:** We are getting aspire to a 20% revenue growth for the entire year and in terms of margins I think we are looking at slightly subdued margins between 13% and 15%.

**Nehal Shah:** 13% to 15% EBITDA margin.

**Keshav Bhajanka:** Yes.

**Nehal Shah:** My last question on MDF, now with the capacities which are expected to come in or which plan and ones which are already added what is the sense in terms of the excess supplies

which are likely to come in and till when you expect the supply to get exhausted is it that we are probably likely to see two to three years of excess supply in the market particularly in the northern market, which is likely to put pressure on the MDF prices in us over the same period.

**Sajjan Bhajanka:** Here I foresee more impact of work capacity of the southern market because the most of the imports was done in the South India and then the biggest capacity 1200 cubic meter it has come in the South India they bring this new plant and another plant which they still is bring in that is also in South India so north first stability would be imports not like laminating veneers they were importing lot of MDF so with dollar going up with the logistic cost come forwards to North India going up and we like us reducing the price already we have reduced by 5% so with this North India and North India like consumption is also rising so I hope so that within this financial year North India would more or less be stabilized and South they would be intent because of existing capacity business the capacity any imports but I think gradually south also would be stabilized and import would be capacity there also with dollar rising logistic cost rising and green maintaining a lower this price in south so this south would also is stabilizing in the year.

**Nehal Shah:** But Sir one probability of exporters cuts down on price looking at the vein prices, which would have come down?

**Sajjan Bhajanka:** India is a very small market. For exporter vis-à-vis China on capacity is 14 million. India is importing hardly 0.1 million so with this India will be significant and for Indian market only even we will not for any extra discount for release the price and we are intending one distinct is there some standards so if it is implemented then there would be challenges for the exporter to India because then they have to work up with BIS standards.

**Nehal Shah:** And what is in our anti-dumping duty?

**Sajjan Bhajanka:** Yes that is still continuing.

**Nehal Shah:** Sorry.

**Sajjan Bhajanka:** Anti-dumping is still continuing.

**Nehal Shah:** Thanks a lot.

**Moderator:** The next question is from the line of Shriram R. from Sundaram Mutual Fund. Please go ahead.

**Shriram R:** Thanks for taking my question. Couple of questions I have. So firstly on the laminate front I mean still what went from this quarter on the margins. I know that you told this before ethanol price are rising and we will further see a 300bps improvement but if I look at your competitor who would since reported the results this kind of drastic fall is not visible for him. So what one went wrong for us and is there any distance in kind of sourcing that we do that is why our margins are low throw some light on that? And secondly Sir on the commercial veneer front if I see that your volumes earlier were about 10% and that time the core plywood growth was around 2% to 3%, today we have achieved what we were trying to do at about 8% but the commercial veneer volumes have come down to 5000 odd levels. So where do we see it going I mean do we see a further reduction in commercial veneer because as I understand veneer has a better gross margin so how do you see that mix going forward Sir?

**Keshav Bhajanka:** In laminates there are two sectors to play first as I already said the crude oil prices play the big role because of which ethanol prices have pushed up melamine prices also higher and the price of paper also increased. So all of these raw material price increases hit our profitability. Having said that in exports we had supplied things to it with regards to some material because of this the high-end value exports did not take place during Q1. Now they are significantly high profit products and as such we lost about 25% to 30% on contribution from these products so I believe going forward both these effects should be taken care of, the raw material price increases because of the fact we have already taken some price hike and in terms of exports and the price is back on track. So I think going forward the margin should look high and these were the primary effects that it has improved margins.

**Shriram R:** And on the veneer front Sir?

**Sajjan Bhajanka:** Veneer was never a big contributor to our profile. Veneer was mainly we were manufacturing veneer. We were basically to meet our own face veneer requirement and usually we used to sell the and we have to get some veneer into the market so now rather by decreasing of the veneer volume our profitability in plywood has increased so that way it was contributing to our overall strategy for using better quality veneer ourselves selling the inferior grade veneer and as we were probably I said a point of view the imported price was maintained for the domestic consumption and domestic sales of veneer so that way the cost of the imported veneer being sold in the market was already there so it has not contributed that the profit. Although it was technical so that way and now again we have reinitiated it this time not manufactured veneer our own manufacturing from abroad but this time we are buying veneer from Gabon. Gabon overcapacity has been created, in Gabon now they have more than double capacity of the face veneer manufacturing out of the Acume face and

which is too high so there is a few competition there. So this one reason that we refrain from putting up another unit at Gabon that is now we are confining to importing veneer and the more than 150 containers are in transit now. So those lead time from Gabon to India in very high, it is as high three, four months so lot of veneers are in transit as and when they start reaching here and then we have another option if need arise we did give the Acume face veneer also along with the PQ which we are importing from Solomon Island.

**Shriram R:** Sir just one more question on the MDF part, your core MDF the standard MDF actually has gone down by 5% degrowth in volumes and 9% actually you have done better on the prelam MDF front, which has been started so do we see a rise in propositions of prelam MDF here on because that has, has a better kind of realization and that is actually adding to the topline of MDF what you see on that front?

**Sajjan Bhajanka:** You are talking of MDF or particleboard?

**Shriram R:** The prelam MDF Sir.

**Sajjan Bhajanka:** I think prelam particleboard you are saying.

**Arun Kumar Julasaria:** No actually this MDF lam, pre-laminating line we installed recently so it was not installed along with the MDF line. So that time virtually we had no pre-laminated sales so this we started and it is gradually picking up so our installed capacity is around 25% to 30% is the MDF capacity is twice a 80% level then around 25% material, which are pre-laminate. Obviously that will continue to profits because that is non-profitable item that is value addition that will continue to and here in Chennai also we have another line fully in place so we have two pre-laminating lines and there this particleboard our target is gradually to go for 100% pre-lamination so we had the capacity and because particleboard to this production capacity less so we can do the 100% pre-lam.

**Shriram R:** So what is the pre-lam capacity in Chennai?

**Arun Kumar Julasaria:** Chennai it is around 3500 boards per day.

**Shriram R:** Thank you.

**Moderator:** Thank you. The next question is from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.

- Kaustav Bubna:** Can you please tell me the landed cost of MDF imports into India today that how our realization was within MDF so the cost there was Rs.22567 per cubic meter what would that be for landed cost of MDF imports today for one cubic meter?
- Sanjay Agarwal:** You are asking the comparison between our price and the imported cost.
- Kaustav Bubna:** Yes as of today the latest as you have.
- Sajjan Bhajanka:** It is approximately the same level that is in India not coming into Northern India. As far as Southern India is concerned the difference is still more than 10% to 12%, 13%, 14% depending upon the cubic thickness. The prices will ultimately not go down so much even if the prices in South India go down by nearly 4%, 5% also then the import will be really become very low because to service all the situations on five years is very, very difficult we are being implement huge stocks and for that actually there is a lot of interest cost and ware housing cost maybe alluding cost and all that. So actually the difference of about presently there was 12% to 13% in South India/
- Kaustav Bubna:** This is after that depreciation of the rupee.
- Sajjan Bhajanka:** Now on the market price. Now the price of imported MDF has come down by around 10% in last three, four months international prices has come down but there is 6% the rupee appreciation and the dollar appreciation. So that is after countering that now in last three, four months I think so imported MDF come down by net by 4%.
- Kaustav Bubna:** Also wanted to know your cost what will I think after this temporary pricing I mean what and assuming to get to even 10 million cubic meters in the next few years more capacity would have to be added what would we say over the period of three to five years of sustainable growth margins for this business and for this MDF business and let us say 85% capacity utilization, MDF capacity utilization?
- Sajjan Bhajanka:** MDF is growing at a very faster pace but pace is not that fast like in six months capacity is double so the growth in demand cannot match that southern upswing in the supply, but gradually it will be stabilized, because it is growing as a much faster it done growth in plywood and there has been history all over the world wherever the MDF is started whenever, wherever it is started picking up it picks up very fast like happened in Turkey as and earlier in Turkey and American countries and then China.
- Kaustav Bubna:** I understand that all I wanted to know is what would sustainable growth margins be in this business?

- Sajjan Bhajanka:** Because now as we have things are not in favor of Indian manufacturers so the margins are now under pressure so maybe again what Keshav told you this quarter are you shall maintain this around 15% EBITDA but it will go up like in particleboard our EBITDA was much better this time and which market is stabilizing which now I do not foresee immediately any big capacity coming into North India. So within another four, five months value and some like the moldable increase now like MDF also has become also household name, it is available at the plywood source. Earlier it was only available to the project under a special product now like plywood MDF also it is become a commodity.
- Keshav Bhajanka:** So gross profit margin should be between 30% and 35% we should need sustainable gross margin.
- Kaustav Bubna:** Gross profit margin should be between 30% and 35% you are saying.
- Keshav Bhajanka:** Yes.
- Kaustav Bubna:** Over a period of you are basically making this estimate after understanding the market scenario for the next three years is that right?
- Keshav Bhajanka:** No, I am talking for an ex-laminate right now the market scenario is buying unstable so going forward the visibility we have for the current year we are looking at gross margins anywhere between 30% and 35% going forward post that they should definitely rise.
- Kaustav Bubna:** So that was the main question. Thanks for clarifying that and also wanted to understand this plywood business we have seen raw material prices come down and I miss the initial part of the call why is that and is that to stay?
- Sajjan Bhajanka:** No, there is plenty of plantation in the country and North India has become the hub of the supply of core veneer and like there are two components in plywood one is the veneer another is bloke so veneer constitutes to more than 70% of the raw material cost and then glue and other manufacturing 30%, so the veneer around 95% is the core veneer and only 5% is the face veneer on an average. So core veneer is a very big component of plywood manufacturing and core veneer prices has come down because of the plenty of plantation would available all over India in South, in North and North India though the veneer units had come up so North India is not only meeting North India's core veneer requirement but likely in collectors actually we are importing now a lot of core veneer from Varanasi, from Lucknow and seasonally the core veneer from North India is going to Kandla, is going to South India so that way and prices was really come down, this is the availability of both of liquid terms and popular veneer in North India.

**Kaustav Bubna:** On the North side you were saying that the demand is reduced because of unorganized competition coming down is that right?

**Sajjan Bhajanka:** Yes we have because it is simple. Earlier we were paying around 28% in British. This can be decreased to 18% and earlier the unorganized sector was almost they are paying zero duty now the total duty contribution from unorganized well negligible whereas they had more than 70% value share, volume and value, its value therefore is more than 70%. So with that thing almost zero contribution out of 3200, 3300 units to 2500 is the totally augmented 700 whereas would partially exempted only 100 units were paying the duty. So for them duty is that we increase of 18% for us there is decrease of 10% so this is a big gap, we have decreased price by 10% to pass on the entire benefit of GST whereas they had increased price by 10%, just to again the with the impact of GST and still they are facing tough competition and amongst them with the organized there is a migration from unorganized to organized so these things are can be placed. So for them there is the like liability in business.

**Kaustav Bubna:** And just last question how is the interaction with contractors and architects going because what I understand this is understanding the structural change shift from plywood certain part of plywood to MDF our contractors basically workout and the people who come to our house basically architects are there to be check out make handmade further they basically work on commission base because they prefer using plywood because the commission they earn is high on plywood. So how are we doing how are the big companies that be it Ply, Century, Action, etc., MDF should be used in sort of plywood?

**Sajjan Bhajanka:** Like earlier MDF was the only to the big contracts and through particularly through it was not through the normal marketing channel like traders and that involvement was less but gradually it is also more or less putting the plywood's pattern was same so it is now MDF is available almost to most of the shops and it is being consumed by the contractors so it is the same mechanism what understanding they had some plywood send a machine now they had for MDF.

**Kaustav Bubna:** Great thank you so much.

**Moderator:** Thank you. The next question is from the line of Anand Dubey from VD Investments. Please go ahead.

**Anand Dubey:** Thank you for taking my question. Sir my first question is on the growth, how much do we see in FY2019 and kind of EBITDA you are making for the Century Plywood?

- Sajjan Bhajanka:** Your voice is not clear. Can you repeat the question?
- Anand Dubey:** Sir how much growth do you see in FY2019 and what kind of margin in the Q1 consolidated basis Sir?
- Sajjan Bhajanka:** We are still maintaining that our overall growth would be 25%. Our EBITDA margin would be around 15% and PAT would be 10%.
- Anand Dubey:** Sir my second question is pertaining to what will be the EBITDA margin in plywood and the MDF, laminate and veneer in FY2019?
- Keshav Bhajanka:** See in plywood the EBITDA margin should at 15% to 16% in laminate we should look between 13% and 15% in MDF we should look at 15% plus and in particleboard we should look at 25% plus.
- Anand Dubey:** Sir my third question, please explain how are the supply chain of MDF and just market where MDF is sold is Rs.30 per square feet so our realization is currently this quarter is 22567 per cubic meter sir can you explain it about the supply chain of MDF?
- Sajjan Bhajanka:** There is a total disconnect. I had because retail market at market it is being sold that is merely and then we do not deal in that figure what is the ultimately at what square meter because then their traders are involved, logistic cost is involved that is different. We are majorly that the consigned to of course per cubic meter ex-factory then there would be logistics cost, so sometimes it is on our account sometimes it is buyers account so that is our mechanism so it has been difficult for us to answer your question, but the price in the retail market is more or less stable, there is not much impact of the change of dollar or these other things or more capacity with the manufacturers so that way the return market is more or less above we are not seeing any decrease in the prices.
- Anand Dubey:** Sir my fourth question what will be your target for long-term borrowing?
- Sajjan Bhajanka:** I think if time permits you can come again.
- Anand Dubey:** I missed the initial remarks that you made and so I am just trying to ask this last question what will be our target of long-term borrowing and what in FY2019?
- Sajjan Bhajanka:** Our long-term borrowing?
- Anand Dubey:** Yes Sir.

**Arun Kumar Julasaria:** You can refer to our presentation where we speak on long-term borrowing projections. So watch the flow sheet you will find the details, complete details is there.

**Anand Dubey:** Thank you.

**Moderator:** Thank you. The next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.

**Akshit Gandhi:** Thank you for taking my question. Just two things from my side see we understood that one of the competitors faced a lot of volume challenge in MDF last quarter because of not participating in the discount schemes recently channel checks have indicated that they have taken a 6.5% pricing cut so I remember Keshav's comment that if the pricing remain stable then we can achieve 15% EBITDA margin so does that factor in this reason 6.5% pricing cut or there will be an additional pressure?

**Sajjan Bhajanka:** You see I think in more of time last quarter any deduction on this as I said that there would be some more cut and actually that cut has happened and that has been already taken in to the system. So right now whatever you are seeing could be logged up on, there can be some change in Southern India we talk about the green new plant in Southern India so we expect the prices in Southern India to go down a little bit maybe 5% and the 6% now in Southern India only we do not expect much of cut in Northern India now, but if it is goes down.

**Akshit Gandhi:** I understand. How much of our current volumes we sell at the southern market or it is completely sold in the northern market only?

**Sajjan Bhajanka:** Right now we are selling about 70% in Northern India about may be 10% in Southern India some 4%, 5%, 7% in Eastern India, 4%, 5% in Western India like that we expect our Southern India to further go down a little bit or maybe totally stop, it may stop but that I am sure will be the consumed into either Eastern India because Eastern India they totally to take it market there is no problem and some part of in to India so that would be an issue because we are going to take small value going into Southern India.

**Akshit Gandhi:** Sure and I remember I am just reconfirming Keshav indicated the plywood margins for the full year will be 15% to 16% at a broader level right.

**Keshav Bhajanka:** 15% to 17%.

**Akshit Gandhi:** This commercial veneer volumes, which have come down to 5170 cubic meters what should be the run rate for that going forward?

**Sajjan Bhajanka:** See that business you see every country is now stocking export of loss we are still getting some loss from Solomon Island so we are getting some loss but still even that is also growing up now. We expect the business see either stay of this or maybe go further making it down it will nether stop probably putting it but it is there is a time when there is probably putting 10 times or 20 times for this. So this business is not very sizable business in to our whole portfolio also now. I do not think going ahead we will see this business growing at all it will certainly diminish.

**Akshit Gandhi:** And one last thing from my side I did see that you brought down the buyers credit and commented that going forward the forex losses will be quite lesser so what kind of a run rate we should expect for the forex losses Sir, which was I think 12, 14 Crores this quarter what could be the run rate at the current currency levels?

**Sajjan Bhajanka:** In fact as we said, to derisk also we have derisk ourselves and apart from this we have restated our line to 68-acres, so we have carried our liability to this quarter is the 8868.58 we once we achieve and is intent that we will be anymore sharp adverse reaction on account of rupee depreciation. So we may not have a gain but I do not expect there may be any further hopes but we can appreciate that anticipating this thing is something very difficult. Maybe another angle to this like most of our outstanding forex liability is of the capital measure like ECB for MDF plant, for particleboard plant, for Kandla plant, for our corporate of this so this is of the long-term so that way if any impact is there partially it would be capitalized or go for the capital. So on the working its impact only there and now already it is at 59 or 60 only so we do not foresee the rupee depreciating very sharply beyond this point.

**Arun Kumar Julasaria:** In fact as Sir said with the long-term liability, we have that loss is more realized it is in margin also.

**Akshit Gandhi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Balvinder Singh from Canara HSBC Insurance. Please go ahead.

**Balvinder Singh:** Thanks for the opportunity. What is the targeted capacity utilization that we are making on the MDF side for this year FY2019 and what is the price differential between the current brands and also in the imported MDF currently?

**Keshav Bhajanka:** I think the price difference part we have elaborately discussed and for the capacity utilization this year our target is to reach 80% around.

**Balvinder Singh:** Secondly given that we have seen a sharp reduction in the prices of MDF and there would be a sharp decline in the targeted ROE, ROCE of the MDF business that we had anticipated say two years, three years back at the time of setting up the MDF capacity. So now how at this point of time given that we have seen most of the price reduction that has already happened in the market what is the sustainable ROE, ROCE that we are looking in this business going forward?

**Sajjan Bhajanka:** Now it is a transitory face and a lot of things are changing in the market if this would not been like this then there would have been very niche propagation, prior to our entering this field the existing player then they were making very good profit and their EBITDA needs to be 35%, 40% and making good profit. So now to some extent this super profit is no more existing, but because for us the new capacity but all the existing players they have also got new capacity, like Green. Their earlier capacity was 600 where they had a depreciated plan but now they have grown another capacity of 1200 similarly Action they early put to an 500 but they have brought another capacity of 700 so that way more or less all the players all three large players they are equally placed. The challenges and the opportunities to them are at par, so I think things would stabilise fast.

**Sajjan Bhajanka:** Also, I would like to add at 15% EBITDA margins, which our perception is that we have stated that point, the ROCE is going to be well in the double-digits. I think our ROCEs will not dip below 12%.

**Arun Kumar Julasaria:** In fact by thumb rule EBITDA margins ROCE figures in this business. So if EBITDA margins is around 15% ROCE will be around that and EBITDA margin figures.

**Balvinder Singh:** And this you had anticipated almost around close to 25% to 28% in two or three years back when we had decided to set up the capex, right?

**Arun Kumar Julasaria:** I was saying that in the results the thumb rule EBITDA margin is ROCE. ROCE is hovering around EBITDA margin figures. Your second question was I think about improvements in profitability?

**Balvinder Singh:** Initially, we had anticipated a kind of ROCE we had targeted around 25% to 30%. Now that stands at 14%?

**Sajjan Bhajanka:** Now it still reduced and this strategy we think it is temporary because there would be always a situation disparity between demand and supply so now like everybody, all the new players are discouraged bringing new capacity like the new units and all, say after a year or so, again this will create some short supply in the market, so the opportunity on these

oversupply is part of free economy so this play its role. So now we cannot expect 30% plus EBITDA. It will be at par with the plywood, like 15% to 16% what EBITDA we have in plywood, 17% would be maintained for this.

**Balvinder Singh:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

**Sneha Talreja:** Good evening Sir. Thanks a lot for taking my question. Sir, first question is related to the tax rate. Why are we seeing the tax rate of 28% this quarter? I mean it is quite a lot on the higher side versus our guidance?

**Arun Kumar Julasaria:** As I said in my opening remark, why tax rate is high. In this year it is high because one of our Assam unit which was exempted till last year has seen no more exempts, but we had setup another unit in Assam which I think is exempted for eight more years. And the capacity in that unit still can be ramped up that is why the tax rate in this quarter is higher. So slowly and slowly when the opportunity in that unit will ramp up, the tax rate will come down. So it will come down from 28%. I cannot say what the exact figure will be but it will start to come down.

**Sajjan Bhajanka:** Madam, our Guwahati unit was exempted, the first unit in Guwahati which seems to be exempted anymore and we have set up a second unit in Guwahati in March 2017. So that is now kicking up the profitability and with the increased productivity that will make more volumes, more profit so that will continue to our exempted profits and anyway we have to take 21% around that EBITDA that is net so financial outgo will be 21% and this time also outgoing probably is 21% because we have lot of MAT credit, so there would not be any cash outgo, it will be confined to 21% from this year income.

**Sneha Talreja:** Second question actually would be sort of a repeat question, you have already answered that exports have not done that well in the laminates division and domestic growth has been higher. Can you just quantify the same, how much we would have seen in exports and how much would be domestic growth for laminates?

**Keshav Bhajanka:** In terms of domestic our growth has been close to 25% and exports our growth has been...

**Sneha Talreja:** Sir I did not get the exports figure?

**Keshav Bhajanka:** 7%.

- Sneha Talreja:** 7%, Sir one last question from my side, it is more or less related to the MDF pricing? Can you just state that where does our pricing stand vis-à-vis the Action or Greenlam in the market today because that we have taken somewhere about 5% price cuts?
- Sajjan Bhajanka:** It is in between Green and Action, there is around 4% to 5% difference. So we have kept it in the middle of that around 2% below Green and 2% above Action.
- Sneha Talreja:** When was the last price you would have taken by us?
- Sajjan Bhajanka:** Price last revised was in April.
- Sneha Talreja:** Even for the competitors that was the same?
- Sajjan Bhajanka:** Yes.
- Sneha Talreja:** Thanks. I will get back in queue.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thank you Sir. MDF volume growth for the industry for this quarter what is the estimate?
- Sajjan Bhajanka:** For the industry?
- Dheeresh Pathak:** Yes.
- Sajjan Bhajanka:** Our capacity I can tell you that now present capacity is around 4400 cubic meter per day. So this reports to the new plants of around 1800 capacity and another 2000 is the new capacity being produced in the last two to three months. So that will take time to stabilise, so at the moment we can expect maximum the new capacity would be operational at 30% to 40% level and then the old capacity again is similar, around 2000 cubic meter per day. So that capacity is now I think running at overall may be 70% to 75%. The total capacity would be around 20% or may be 65% to 70%.
- Dheeresh Pathak:** Okay, but still did not answer my question. I was looking exactly for the industry volume growth number, if you have some estimate?
- Sajjan Bhajanka:** We do not have that.
- Dheeresh Pathak:** Last year if I have to take an estimate, like FY2018 what was the industry volume growth?

**Keshav Bhajanka:** No. Tentatively the industry has been growing by close to 20% plus for the past few years actually. Well due to the fact that unorganised data, or the import data is not available it is very difficult to quantify. Still I think you can take a benchmark of 20% growth in the industry.

**Dheeresh Pathak:** So growth has not slowed down, it is the capacity that has come up and therefore prices have corrected?

**Keshav Bhajanka:** Definitely. That is right.

**Dheeresh Pathak:** Laminates you said that export business, you could not participate and therefore profits were impacted. Can you just explain that why you could not do export business?

**Keshav Bhajanka:** In terms of certain moulds that we are doing exports we take certain profits and because of that the overall sales was low and those moulds are being refurbished and has come back. So from this quarter onwards we will be able to increase the exports of lam.

**Dheeresh Pathak:** So FY2018 what was the export volumes in laminates, total volumes you gave?

**Keshav Bhajanka:** Exact volume data I do not have. I hope I can share that with you.

**Dheeresh Pathak:** Next question is forex exposure, so the mark-to-market on the forex debt that is directly taken into balance sheet, right. That does not come under P&L?

**Sajjan Bhajanka:** Yes.

**Dheeresh Pathak:** I am looking at slide 22 where it is forex exposure, my question is that whatever mark-to-market on forex debt that happens that you are taking directly to balance sheet and you are not expensing in the P&L?

**Arun Kumar Julasaria:** The impact of that is coming to the profit and loss account and then it is taken to balance sheet. We have to restate our balance sheet on the basis of revolving master credit. Whatever was the mark-to-market impact for the quarter that has been factored in the profit and loss account and liability in the next quarter.

**Dheeresh Pathak:** Okay, but is it tracked in other comprehensive income, which is after the PAT, or is it taken in this period?

**Arun Kumar Julasaria:** No, part of this is taken in borrowing cost as per the requirement of the accounting standard and part of this is taken in forex loss, which goes into EBITDA.

**Dheeresh Pathak:** Okay. Sir, total if you see at the end of March 2018, you had total USD exposure of \$45 million and if rupee is depreciated by about Rs.5 or so, so you should have an impact of more than 13 Crores. You should have had like some 22 Crores?

**Arun Kumar Julasaria:** No, in between, lots of payments were made. This is the closing figure.

**Dheeresh Pathak:** Okay. Sir, what is the reason for change in the depreciation policy and what policy are you using for tax purposes?

**Arun Kumar Julasaria:** For tax purposes we have no choice. We have to apply on income tax rates, but in case of providing depreciation in books is as per Company's Act. We have choice of straight-line method and WDV. Earlier we were following the WDV but we found that since our new projects are coming there if we provide depreciation in WDV basis initial depreciation is too high, and depreciation will slowly come down. So initially the total figures are completely distorted. So we found early our business was as per plan, so it was not that good. Now new are coming with the capex, which are capex intensive projects. So in order to give correct picture we found it as very good that we should change from WDV to straight-line method.

**Dheeresh Pathak:** Okay. For tax we still use WDV, right because that is still beneficial?

**Arun Kumar Julasaria:** For tax purpose there is a separate process, which are WDV but they have no connection with the depreciation that we provide in the books.

**Dheeresh Pathak:** Understood. Last question Sir, commercial veneer that you have shown in the slide 7 that used to be 180 Crores to 200 Crores revenue number that is now down to an annualized run rate of less than 100 Crores, so what is the profitability in this business when you were doing about 180 Crores in FY2017 what was the sort of EBITDA margin that you were making in this?

**Sajjan Bhajanka:** I have already explained that face veneer is while our units have produced or the 14-size veneer while mainly for raw material security, face veneer while never, if I never have profit center the decrease in volume has contributed to the profit of the plywood segment because your faced veneer was in the plywood segment. So independently it was not a profit center. It was only surplus material, non-veneer material were being disposed off so market was producing faced veneer mainly the purpose of that to meet our own requirement of face veneer.

**Dheeresh Pathak:** So if I understand you correctly, on slide 7 if you see in FY2017 you are showing 184 Crores of revenue from commercial veneer, you are saying this was sold as a no profit, no loss, so you did not make any money on this 184 Crores that you did in FY2017?

**Keshav Bhajanka:** Let me clarify this. In case of commercial veneer what used to happen is it was no loss the A grade and the B grade which was used by us for our internal consumption and the scheme B grade to be sold into the market by way of byproducts. So while we did not make any money in the deal on the AMT story, our range were subsidize because we had put it together in our own unit, so this is a possibility within our plywood division; however, now we have switched over to faced veneer within the plywood division, so we had a saving there, and due to the same the adverse effect of the commercial veneer division has no impact on our overall profitability. Earlier the commercial veneer division would subsidize the rates of higher faced veneer in plywoods because of this faced veneer plywood expenses have come down because of the change in the nature of imports.

**Dheeresh Pathak:** Thank you.

**Moderator:** Thank you. The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

**Yash Agarwal:** I just had one question, what will be the depreciation for the full year, an estimate?

**Arun Kumar Julasaria:** It will be 4x you can say. So 4x of 1Q you can say.

**Yash Agarwal:** So Rs40-50 Crores.

**Arun Kumar Julasaria:** Yes unless you make substantial additions in the current year, which we have not planned so it will be 4x.

**Yash Agarwal:** So it will be annualized, right of the Q1 number, approximately?

**Arun Kumar Julasaria:** Yes 1Q figure was Rs10.83 Crores in the Q1. So it will be near about Rs45 Crores or something.

**Yash Agarwal:** Thank you so much.

**Moderator:** Thank you very much. That was the last question. I now hand the conference over to the management for their closing comments.



*Century Plyboards Limited*  
*July 25, 2018*

**Sajjan Bhajanka:** Thank you very much for participating in our investor's conference. I hope that my team could meet all the queries and Mr. Julasaria will be available and you can reach Abhishek for any queries in future so please do not hesitate to contact them. Thank you very much for participating. Thanks for Ambit for organizing the conference.

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