



“Century Plyboards Limited Q4 FY2018 Results Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q4 FY2018 Results Call of Century Plyboards Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Sajjan Bhajanka, Chairman, Mr. Keshav Bhanjanka, Executive Director, and Mr. Arun Julasaria, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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 would now like to hand the conference over to Mr. Sanjeev Singh of Emkay Global. Thank you and over to you Sir!

Sanjeev Kumar Singh: Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. I will now hand over the call to the management for the opening remarks. Over to you, gentlemen!

Arun Julasaria: Good afternoon, everyone. I am Arun Julasaria. As a custom I would like to review the disclaimer this call is just to discuss the historical terms and numbers and future outlook of the company. In no way it should be taken my invitation to invest in the company.

The recent presentation about the numbers of the company has already been circulated to you. And I think most of you have already gone through it. But still I would like to speak about the basic numbers. At macro levels, I would like to say that the results are the same for the whole year ending March 31, 2018. Turnover has increased from Rs.1967 Crores to Rs.1782 Crores, with a growth of around 10%. Out of the total growth of 10%, 4% growth has come from the existing businesses. And around 6% has come from the newly setup MDF plant.

EBITDA margins for the year with volatility were 15.9% as compared to 17.7% last year. The main reason for difference is due to adverse foreign exchange difference. Last year, we had a forex gain of around 18 Crores. This year we are having a forex loss of around Rs.7 Crores. So if we take the combined effect, it is around Rs.25 Crores. Apart from this, we have started new MDF plant, which is yet to reach the full capacity. But the full depreciation has been provided, so the additional depreciation on account is around Rs.29 Crores. So if we total all these, it is around Rs.54 Crores, where a difference in PBT is only Rs.35 Crores.

With these remarks, I would like to open house for discussion. And I will like our Chairman to say opening remarks, please.

Sajjan Bhajanka:

Good afternoon. This is Sajjan Bhajanka, Chairman Century Plyboard. Last year was a very challenging year. We have many challenges during the year, some were anticipated, some were not much anticipated. First was GST. Average market was very much concerned that GST is coming, not coming. Then it was almost sure that GST was coming. Then it was the GST paid would be reimbursed, will not be reimbursed. It is very cumbersome. Some markets, particularly the channel were not buying the material. They were restricting to only that much material, which was immediately saleable by them. And the entire channel was dried up. Usually, they used to keep one months-plus inventory with them. So that was zeroed down. And ultimately, GST was introduced from July 1. But unfortunately, it was at the highest rates, 28%, which was meant for the luxury goods or white goods. But from the day one, it started the year possibly in the market this cannot stay. It will come down. So in the many meetings and other meetings, they were giving statements except some luxury goods, all other goods will be brought in 18%. And but again, the uncertainty in the market continues. And then this went up to November 15. And finally on November 15, GST was reduced from 28% to 18%. So almost a major part of the year was consumed in the present process.

And then, first GST for laminate was reduced from July 1 itself. So that time it was government directive we were to pass on the entire price difference to the market which led to price declining by 10%. And similarly, when GST was reduced from 28% to 18% on Plywood on November 15, again they passed on the entire benefit of the market. But in the process, we could not take the normal price increase during the year. Usually, depending on the cost increase, 5% to 7% price increase we take, either in one go or in two parts. So there was some stress on the profitability because we could not revise the price upward due to this GST episode.

As far as the Laos and Myanmar is concerned, the Laos is still they are not allowed to export their veneer. And Myanmar, although, they have allowed now cutting of timber, but they have nationalized the entire operation. So now the timber cutting and the operation, everything is being done by the government. So the process is very slow. Otherwise, by this time, markets would have been flooded with the new arrival. But now materials have started coming in, but it is coming at a slower pace.

So maybe after a month or two, things would normalize. But to a greater extent, Indian face veneer market has shifted to other species. And we are responsible for one species, which we introduced in the market, veneer manufactured from imported timber from Solomon Islands. So that is being well accepted, and we are exploring some other possibilities also, some other timber from Africa that we are working on. If those timbers are successful, then maybe our dependence on Keruing that is the traditional timber coming from Laos or

Myanmar will reduce because otherwise also, Keruing is a costlier timber and the replacement, which we are getting are much cheaper.

MDF, yes, we could start. Although, there was some trouble, some agitations were going on while we were putting up the plant. But with the grace of God, we could overcome all these things. And in a record time of 16 months, we could take out first board. So we started our ground breaking like the groundbreaking in the first week of April 2016 and we took out the first board on July 29. So it is within 16 months. And then, commercial productions, we started from the October 3. And October to March 31, six months we could sell around 50000 cubic meters. We produced 60000 cubic meters

So in the first six months, we are EBITDA positive. And almost broke even, there was hardly any loss on the paid front. And our acceptability in market is very good and almost we are at par with all existing players' utilization wise

Going further, market is growing very fast. And new other capacity are also coming, but as this market is poised to grow very fast, so we do not see any problem. Maybe some short-time hiccups would be there because any new capacity would take some time to get absorbed in the market. And we are also planning further capacity like almost we have decided to expand capacity at the existing plant from 600 to 1000 cubic meters with a nominal capital infusion maybe within Rs.110 Crores or Rs.120 Crores. So this capacity will increase from 600 to 1000 cubic meters per day.

And we have installed almost full laminated capacity for value addition. So more or less, this are there and I will respond to your queries. And we are sure to grow by at least 25% in the coming year because our MDF and particleboards total turnover in the last year was Rs.150 Crores, so which will grow by another Rs.250 Crores minimum to Rs.400 Crores. Laminates, we have taken expansion. So minimum Rs.75 Crores will add to the laminate. And plywood to the existing Rs.1250 Crores turnover, we sell a minimum Rs.150 Crores additional because we have put up a new plant also at Guwahati. And we are optimizing the capacity all the existing plants. So many of our plants are now running at almost all-time high capacity. So we expect another Rs.150 Crores turnover in plywood, Rs.250 Crores MDF and particleboard, Rs.75 Crores would be coming from the laminate And like our other products, CFS, we expect this year's turnover around Rs.100 crores. So this should grow by another 10% minimum. So altogether, Rs.500 Crores we are expecting, minimum addition. Our turnover is currently 2000crs and so we are targeting on the net turnover this year to around Rs.2500 Crores.

Thank you. Now your questions. Your queries are welcome.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon Sir. Post third quarter results, you have been quite positive on the overall industry considering that you are seeing that e-way bill is going to be implemented in the current year and therefore, growth should improve. Also you mentioned during third quarter post third quarter conference call that post reduction in GST, the worst is behind us. But the fourth quarter seems to be quite disappointing. Can you give some colour on what is the reason for such a poor performance in fourth quarter? And in FY2019 with the introduction of e-way bill, and a very low base in FY2018, why are you looking for only 10% growth in plywood segment?

Sajjan Bhajanka: Well, this fourth quarter, e-way bill was not introduced. And fourth quarter results, the major impact from two fronts: One is a higher depreciation of around Rs.30 Crores on MDF and another is forex loss. So the forex loss for the quarter is around Rs.7 Crores. And whereas the last corresponding quarter, there was a profit of Rs.15 Crores, so when we compare those two fronts, there is a difference for another Rs.55 Crores.

Rajesh Kothari: I am talking about particularly plywood segment, where if you look at your gross profit, where you are showing minus 20% and EBITDA stock forex is also minus 20%.

Sajjan Bhajanka: Here, the major factor is our Guwahati plant. Guwahati plant, there were some this problem in the forest department and forest policy. So the major raw material comes from Meghalaya. Meghalaya they have not approved the working plan. So the raw materials from Meghalaya were abruptly lowered and almost stopped. The prices also jumped up like the pine planks we are buying for Rs.250 per CFT. It increased to almost Rs.400 CFT. This has created so much backlog that it has still not come to normal levels. Now also still Rs.400, it is prevailing at Rs.350 where earlier the prices were Rs.250. So majorly the profit share, this the impact here is one is from Guwahati and another factor was that in GST things introduction, loading and other things, we could not take the normal price increase, which is taken. So now we are planning to take one.

Keshav Bhajanka: I just got a one point to add. You see Q4 last year was an exception. We got the full benefit of demonetization. And during those two quarters, the unorganised sector was very skewed. This year, we had no such benefit because the e-way bill was introduced was introduced on the 1st of April.

Rajesh Kothari: All those things were known dear friend. All those things were known-post third quarter conference call.

Keshav Bhajanka: Let me just complete. Last year was an exceptional quarter, where we posted 16.6% for the year, we had 19.1% without forex for Q4. If you look at Q4 this year, as against 16.6% last year, we have an EBITDA of 16.7%. So compared to last year, our Q4 EBITDA is actually better in plywood than the usual.

Rajesh Kothari: EBITDA without forex is 16.7%, am I right, versus last year 19.1%?

Keshav Bhajanka: Last year, EBITDA without forex for the year was 16.6%. Last year in the fourth quarter 19.1%, which was an exceptional quarter.

Rajesh Kothari: I am comparing like-to-like let us not get into the exceptional quarter because third quarter last year was also exceptionally very, very weak. Am I right? So post third quarter in the current year, in the conference call, when we are guiding for the full-year target, we knew that the last year fourth quarter you had some benefit because of the demonetization and the unorganised was squeezed. So I am not getting into it. So no worries. My question is...

Keshav Bhajanka: Quarter 3 last year that was a good quarter. We went through a demonetization in these two quarters.

Rajesh Kothari: So that was known fact, my dear friend. Post third quarter conference call that was known fact. But anyway it is all right. Let me come to my question. So my question is whether the issue right now availability in Guwahati and those region, is it improved? Or is it still going through a challenging phase? One is availability. Second, of course, you mentioned that prices still remained very high on from 400 now it is still 350 kind of thing. But whether availability is it restored, with effect from April 1? Or is it still facing a problem?

Keshav Bhajanka: Availability is better as compared to last year. Having said that, the cost of materials has increased. So going forward, we are looking at a similar EBITDA. We are not looking EBITDA of close to 19%. That was an exception. We're looking at standard EBITDA of 16%-plus for the current financial year.

Rajesh Kothari: And what kind of volume growth are you looking for in the plywood segment?

Keshav Bhajanka: For the year, we are looking at volume growth of close to 14% to 15%. Of Q1, the volume growth is to be around 8%. And going forward, it should ramp up.

Rajesh Kothari: I see. So availability is still problem and therefore?

- Keshav Bhajanka:** But the raw material prices are not reduced. The raw material prices are still high compared to last year.
- Sajjan Bhajanka:** Now we have created a normal inventory, which is two months inventory of raw material that we have restored in Guwahati but at a higher cost.
- Rajesh Kothari:** Understood. Thank you Sir.
- Moderator:** Thank you Sir. We have next question from the line of Sneha Talreja from Edelweiss. Please go ahead.
- Sneha Talreja:** Good afternoon Sir. Thanks a lot for taking my question. It was more pertaining to the plywood division, how much has been the growth in each of the segment, premium plywood versus Sainik? And could you also give more reasons for why we are seeing a decline in realization of about 10% in plywoods?
- Sanjay Agarwal:** Can you repeat your question, please?
- Sneha Talreja:** Sir, why have we seen decline in realization of about 10% in plywood?
- Sanjay Agarwal:** 10%. It is due to a change in product mix.
- Sajjan Bhajanka:** Let me share 110%. You're talking about year-on-year or for the whole year.
- Sneha Talreja:** Year-on-year?
- Sajjan Bhajanka:** For the quarter only?
- Sneha Talreja:** Just for this quarter only.
- Arun Julasaria:** For this quarter only.
- Sneha Talreja:** Sir, if at all you can just give the break up of Sainik and Premium, I think, we will be able to get that.
- Sanjay Agarwal:** Yes, but that is a very difficult thing as far as value is concerned. So even we are trying to get, but still it is not changed, we will give those figures separately. We are working on it. But then still we have not been able to.

Arun Julasaria: The basis reason why this is happening is only one that in today's market situation more of lower value products are selling more and more the growth in lower value product is more and the growth in higher value product is less, basically that is the reason but then it get bifurcation of data is not available at all. But that is a basic reason behind it.

Arun Julasaria: Apart from this we have launched a product called Century Bond. This is in between Sainik and our other products. So in value terms, I mean the realization if you see it is passed.

Sanjay Agarwal: The profitability in both the items is similar.

Sajjan Bhajanka: This item, the profitability is better.

Sneha Talreja: Okay but the whole 10% is due to change in product mix, there is no other reasons?

Sajjan Bhajanka: Yes

Sneha Talreja: One more question was why are the laminates margins down this quarter?

Keshav Bhajanka: Yes. Considering the last quarter, there has been a huge pressure on raw material prices because in laminate, one of the raw material is phenol and all and the price of phenol is directly related to crude. So as such, we face the increases in phenol prices month-on-month and we are able to pass on the some of the price increases but as this is a competitive market, we will not be able to pass on the total cost increase so this quarter, I think, we will be in a far better position. Having said that, I do not think we will be able to expand on our EBITDA margin, but we will be looking at a 15% plus EBITDA margin for this quarter.

Sneha Talreja: And that too for the laminate division?

Keshav Bhajanka: Yes.

Sneha Talreja: Then how much are we currently operating at the plant?

Keshav Bhajanka: We increased the final capacity by 25% and we are expanding further by 25% in this quarter. So I think we will at 70%-plus of the revised plan.

Sneha Talreja: Okay Sir, I think there is one more question from Rohan.

Rohan Gupta: Good afternoon. Sir, on plywood volume growth, this year has been close to 6% in terms of absolute volume, which as against 2016-2017 was 4%. So do you see that this is in line with the industry growth? Or what is your sense on the industry growth??

Sanjay Agarwal: Presently, you see, so much of MDF new plants are coming into the system and the economy as a whole. You already know that economy, as a whole is also not doing really very well. But our growth, I think, in this quarter will be more than about 9% within this quarter. And the first month has crossed 8.5%. So right now, I think our growth will be 8% to 9% in this quarter. The next quarter should be about, say, maybe 10% or 11%. Last year's growth, was not that good, but in absence of E-way Bill, the unorganized sector, actually, got absolute freedom, complete freedom. There were some plants earlier, which are not now at all. So it was easier to do number 2 business than what it was even before that. So because of such freedom, the market was flooded with unorganized production more and more. Now the restrictions have started because of e-way bill. It will take some more time before the e-way bill is actually taken seriously by the businessmen. Even today, they are trying to find out some bypass system to the present e-way bill also. But we are sure that with reverse charge and e-way bill and all the penalties, in few two months' time, it will take its toll on the unorganized sector.

Rohan Gupta: So Sanjay, sir, just wanted to understand that whether at 6% growth for volume in plywood for our company, I mean, how much lower it is than the industry growth? You must be having some sense on the industry growth rate?

Sanjay Agarwal: Actually industry growth rate is such a data, which I do not think anybody in the industry really knows. If I tell you a data it will be absolutely from nowhere. Until now, we have really not made any estimates from the market. So I do not think it is right on my part to give you how much of the industry grew last year.

Rohan Gupta: And as you also said that the large part of this growth and volume is coming from the low-end product in plywood. So probably in the premium end, we have seen degrowth happening?

Sanjay Agarwal: There is no degrowth at all. There are certain branches, like, if you go to Chhattisgarh, or if you go to a market like Odisha, where we see some premium products degrowing, but the markets like West Bengal or Bombay, Gujarat, North India, they are all growing in the premium products, but area like Chhattisgarh, or MP, they are actually in degrowing in premium products.

Rohan Gupta: And with a current pressure in the raw materials, you see that the pressure on or commercial veneer business will remain under pressure? Or will not be able to sell under commercial veneer?

Sanjay Agarwal: Commercial veneer will take a change, complete change. But until now we are secured for few more months and we are looking at putting up a unit in Gabon, which we have not decided till now. The whole industry is passing through a change. I think things will stabilize within next one year or so. Mr. Bhajanka will take it.

Sajjan Bhajanka: Now we are doing another experiment, the whole year in Gabon, there now lot of units and every units, we are putting up multiple batching. So that way, we can say more than 60 or 70 peeling units have started there, much more than that, maybe 100-plus peeling units have started in Gabon. So there is a very huge capacity that is competing amongst each other. But in our production, we have not started using commercial veneer, which comes from Gabon. Still we are using the Solomon veneers, which is much better than Okoume. But we have started marketing of the Okoume veneer. We are buying now on daily basis material from those units and on the trial basis, we have established marketing. So the results are quite good. Because they are hardly making \$50 a cubic meter by going all the way to Gabon manufacturing there, bringing to India and in marketing, we are selling more than that, \$80 to \$100 per cubic meter so that Okoume but we have started getting the Okoume. And the one new like we are trying now, another veneer from Africa from Southern Africa. So the trial we have taken and results are very promising. So maybe in two or three months, more of that will start. So if it comes, then it will totally replace the business for the Keruing.

Rohan Gupta: Sure, sir. But just one more question on MDF, before we get into queue again further question. Sir, what are the reasons for drop in the profitability for MDF this quarter, I mean while we have already established the MDF plant in the first quarter itself?

Arun Julasaria: We (not audible)

Rohan Gupta: Sanjay, Sir, sorry, we cannot hear you. If you can please speak a little bit louder.

Sajjan Bhajanka: Like in the first quarter, we mentioned some materials, which was below standard. It was not of the good quality, but definitely we could not isolate and we could not sell it and in the next quarter we could sell that low quality in the long-term interest of the company, we decided to destroy that material, not to market, leave that material and due to that there was loss in the profit and again.

Moderator: Thank you. Sir, we have next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity, Sir. So firstly, just wanted to check up you just said that you are looking at a volume growth of about 13% to 14% in the plywood segment for FY 2019.

Just wanted to check over here, are we again expecting the lower end of plywood or the middle plywood to grow again faster over year? Or are we expecting growth to be across the board?

Sanjay Agarwal:

We are mostly expecting growth in the lower segment. Of course, we are expecting about 7% to 8% or 9% in the prime segment also, but Sainik PF we have launched now has achieved a very good response in the market. The board, which we have launched, has got a very good response in the market. So the growth in these two areas, we are expecting really much better. It is, of course, all depends, that is why we have taken the growth of 14% that is what will certainly achieve.

Sajjan Bhajanka:

This business market is more or less saturated. Now the migration of demand from unorganized to organized is starting in the lower segment. So further growth like expansions will be there would be based on that, the lower segment migration from unorganized to organized. And for that, we are bringing different brands in the lower segments.

Prashant Kutty:

Okay. No Sir, the reason is to why I am asking that is because if you are saying that if next year my lower and my mid end is going to grow faster than my premium end, I am wondering, how do I still maintain my EBITDA if my raw material costs is going up? So I am just trying to understand that part that, as my lower and middle will grow faster than and my raw material will also growing, how am I going to maintain EBITDA margins?

Sajjan Bhajanka:

Well, for the lower segment the raw material cost is also is less like for higher segment, we use hardwood, which is much costlier. For lower segment, we use soft board like poplar and other plants and timber. So the other I would say, margin in the lower segment is better than the higher segment.

Prashant Kutty:

Margins in the low segment is better than premium segment is what you are saying?

Sajjan Bhajanka:

Yes, because the sometimes we buy also, we outsource lower segment. So then even it comes from SSI and other things so their overheads are less and they are very competitive.

Prashant Kutty:

Okay. And Sir, do you think that this particular year, you have any scope for price increases, because you said that your raw materials cost have been under pressure for almost more than a year now. So any scope of price increases that you're looking at this particular year? Or you think without that itself you can maintain these margins?

Sanjay Agarwal: Okay, so we have taken up a price increase already. That's been decided. So we are increasing the prices from June 1. I think, implement may take another 10 to 15 days. So by mid-of June, the price increase will be established.

Prashant Kutty: Okay, in plywood?

Sanjay Agarwal: Yes. But this is only to suffice for, I think, most of the cost we could not pass on earlier, will only suffice for that. So we are not expecting any increase in EBITDA. EBITDA could stay around 15%-- 14.5%, something like that.

Prashant Kutty: EBITDA could be 14.5% to 15%?

Sanjay Agarwal: Yes, yes.

Prashant Kutty: So the next question is regards to the laminates business. Sir, I actually did not understand this part that you again said the cost are increasing over there, you have taken the price increase. Next year, you are took looking at an EBITDA number of about 15%. Now if I look at this year gone by, our EBIT number was almost about some 12%, which we reported in the quarter, in the full year, which is almost, again, lower than previous quarter as well. So just trying to understand over here, when can we get back to that 14%, 15% kind of EBIT number as far as laminate is concern because you also said you have taken some price hikes as well?

Keshav Bhajanka: Okay, if you look at the previous year, without the forex EBITDA in laminate was 15.2%. Last quarter, as I told you, we had certain price increases, price increases, which we are being passed on, so I think we will be able to maintain this 15% EBITDA and the basic reason behind the lower profitability last quarter was the fact that raw material prices increased and those are being passed on to the market.

Prashant Kutty: Okay. But despite having a higher growth, which we are anticipating in the next year and taking away the price increases, you're not seeing an expansion in our EBITDA margin?

Keshav Bhajanka: You see, we are passing on the cost increases, but around higher volume we are also created higher capacity. So the cost associated with that. And we have already expanded capacity by 25% and further 25% expansion we will get in this quarter itself and operating cost have also increased. As such, we also increase in EBITDA margin, for that we will be looking to maintain these EBITDA margins for the current year for sure 20% growth.

Prashant Kutty: Okay. And my last question is on the MDF side of the business, sir. In terms of the MDF, Sir, how is the overall market demand really panning out over here? And then just an

extension to that, Sir, what is our current utilization level? If you could just tell us in terms of that?

Sajjan Bhajanka:

For MDF, there are 2 segments: one, is the OEMs, like the readymade furniture's and others. So that segment is growing in India. And more like start coming up, manufacturing readymade furniture's and the existing players they are also expanding their capacity. Another segment is the retail business. So like the particleboard, generally is not used by the masses. It goes for the organized manufacturing and the OEMs only. But MDF, quite unlike particleboard, is now getting acceptance from the normal user for household furniture's and other things and this is expanding really fast. And so one worry is that partly it will eat up the lower plywood market. So maybe it will hamper like growth of plywood but the MDF will grow faster because with the new areas we have used that will promote MDF and partly the replacement of the plywood and partly by the readymade furniture makers. But I think once earlier I have shared with you, there was a layer for 20 years the only 200 cubic meter capacity was there. And there are Mangalam and New Chem; they could not sell the product. And both of the companies went for BIFR. After that, within a span of two years, 1200 cubic meter capacity came Green, Bajaj Hindustan, Sirdi these all people, and the entire material was sold within two years. So 200 to 1200. And then now it is around 4000 cubic meter capacities. So more or less, everybody is able to sell the product. Maybe not at 100% capacity, but market is growing very fast. Now MDF is available with plywood shops, for the household use it is available and like for photo frame, for handicrafts, for partition, for roofing. So there are many more uses as it is finding.

Prashant Kutty:

So what is the utilization level at this point of time in the plant?

Sajjan Bhajanka:

Now we are running at around 70% capacity.

Prashant Kutty:

70% and the quarter gone by...

Sajjan Bhajanka:

And 70% means it is of the installed capacity because still our plant is new, still we are doing a lot of experiments, still we are facing some initial trouble like some mechanical problem, other things, other technical problems. So mostly, if we could have run it under the higher this thing, so I think we could have sold the higher products. So now last week or so it is running at 80% capacity and maybe going forward this year we shall achieve overall capacity utilization of 80%.

Prashant Kutty:

FY2019?

Sajjan Bhajanka:

Yes.



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- Prashant Kutty:** Thank you very much Sir.
- Moderator:** Thank you Sir. We have next question from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.
- Kaustav Bubna:** Yes, just wanted could you comment on this new capacity that is coming from Action, Greenply etc., lot of capacity of MDF has been dumped into the market at once. So few brokers, I mean, reports have been talking about gluton realizations because if there is an impact of margins for the next one, two years. So what is your opinion on that? And what is your opinion on the margin impact because of all of this and realization impact because of all of this capacity coming in at one time?
- Sanjay Agarwal:** Equally the capacity is nearly increasing, but you need to understand that all of South Indian market depends on imports. In the last about 18 months or so the dollar has increased....
- Kaustav Bubna:** We cannot hear you Sir.
- Sanjay Agarwal:** The capacity is really increasing because Greenply is coming up with a big plant and Action is increasing some capacity, but the South Indian market basically depends on import. A lot of import is happening even today. So some prices will fall, which nobody can stop, maybe 4%, and maybe 5%, maybe 6%. But because of the appreciation of dollar and the falling of the indigenous prices, the difference between imports and local will be very, very low, and we expect the imports to stop practically in next three months to six months time. That will actually increase our market in a very big way. So the moment the import stops, I expect that whatever capacity is coming in to the system will be consumed very easily, even if not the total capacity, maybe 60%, 70%, 75% of the capacity will be easily consumed in the country itself.
- Kaustav Bubna:** Why would import stop?
- Sanjay Agarwal:** Imports will stop because already 5% maybe the dollar appreciation. And another reason will this prices in India will fall a little bit because of all this competition happening, some prices has to fall.
- Kaustav Bubna:** So for FY2019, what is your realization guidance for MDF and your EBITDA margin guidance?
- Sanjay Agarwal:** We are looking at about 20% EBITDA for FY2019.

Kaustav Bubna: 20%, that means a considerable drop in realizations?

Sanjay Agarwal: Not considerable, but because of so much of capacity coming in and I expect another thing actually. In some time, if the imports really stop the way we are expecting it to happen, the Indian market for us will become really very, very good. So we will be able to increase our prices, maybe by the year-end, number one. And number two all these new factories are importing their machineries on some import obligation. So maybe about 15% to 20% of their production they will have to export for that export obligation, which will not be coming into indigenous market at all.

Kaustav Bubna: So you are not exporting anything?

Sanjay Agarwal: No, we are not into export. We do not have any obligation. But all these people are on export obligation. They will have to export 15%, 20% of their production to outside India. So that much of capacity is not getting into Indian market.

Kaustav Bubna: Okay and how is the architect response to MDF. Because I mean, they have been using plywood and getting the excess improving the product image in the eyes of the retailer - the architect. What are you manufacturers?

Sanjay Agarwal: See, architect is a person who is very well and highly educated. He goes around the world. He has been seeing MDF for a very, very long time. So he is a person who is not averse at all to MDF. The problem does not lie with the architect. The problem lies with the small contractors, who is actually coming to a middle-class home and making things because it is not easy for him to use MDF. He does not know how to use MDF. So we have taken up even our competition and we all have taken up in a very big way to train them. We have created teams, which are going around, which are making such meets, which we call them as carpenter meets. And then we are training them. There is a standard SOP through which we train them how to use the tools, how to use the MDF, how to cut it, how to screw it, how to fix two things together, how to press, laminate on it. All those things we train them in a session of two, three hours. So slowly, slowly that will pick up and that is going to increase the consumption of MDF. If you go today to a shop maybe even in Mumbai or Delhi, you will find that particleboard did not take a space in retail shops, but MDF is taking space into retail shop. Everywhere, maybe across the 50000, 60000 shops across the country, maybe already 5000 shops or 7000 shops have already started keeping MDF, which never kept particleboard.

Kaustav Bubna: Okay. So I just also wanted to understand, when IKEA comes to India they mainly use particleboard, right? All of IKEA's furnitures mainly particleboard and you guys are one of

the only organized listed players who manufactures particleboard so what benefit from IKEA coming into India will they source particleboard from you? How does it work?

Sanjay Agarwal: Yes, we have already approached them. We have not entered into any contract till now.

Kaustav Bubna: They have not spoken to you or what you have approached them?

Sanjay Agarwal: No, no, we have approached them and to be very frank with you, the particleboard furniture also has a lining of MDF on it. So very thin MDF is used on the face of a particleboard to give it a very good finishing so that varnished can be done in a better way. So the consumption of MDF is there in every piece of furniture, actually.

Kaustav Bubna: How is the acceptance of low-pressure laminates, because that is MDF, right, prelam MDF?

Sanjay Agarwal: Prelam MDF, yes. Prelam MDF and prelam particleboard are used by all the OEM, those who actually manufacture furniture on machinery.

Kaustav Bubna: So your capacity is 70% utilized right now, about Rs.60 odd Crores of revenue or whatever. How much percentage of that is prelam?

Sanjay Agarwal: You see, in MDF, prelam will be about 15% of the total capacity that gets consumed because that is the standard in India till now. So that is why I am giving you that data. We do not have still the experience, but our competition and everybody else use about 15% to 17% of MDF is being sold on prelam. But as far as particleboard is concerned, we expect that we will be selling our 100% particleboard capacity as prelam only. Of course, it is taking time. I think, even 30%, 35% till now is not prelam. But yes, we are converting slowly.

Kaustav Bubna: Thank you. That is it from my side.

Moderator: Thank you Sir. We have a next question from the line of Jiten Doshi from ENAM Asset Management. Please go ahead.

Jiten Doshi: Good afternoon Mr. Bhajanka. I have only two questions, one is that what is the sustainable growth rate if I take a two to three year view, you have talked about 25% growth rate for the current year, but if I go beyond what sort of growth are you planning for your company because are very bullish on the GST being introduced and the growth prospect is going ahead that is my first question, second is how are we dealing with the forex impact on a longer term basis, so just these two questions?

Sajjan Bhajanka: For last 14 years, we were following a policy of no hedging, which we stopped 14 years back in the year 2004. If we have kept our entire dollar hedge 2004 onwards, so now our cost would have been around Rs.7 per dollar. So maybe in between we had 2 shocks: One was in 2009-2010 and another was 2011-2012. But within the very next year, we recovered the entire loss. So when we collaborate to the hedging cost, so our loss minus any cost was made up in the very next year. So with all together, yes, in detail there are last year, we earned Rs.15 Crores by not hedging plus hedging cost. Our profit was Rs.15 Crores, plus we saved hedging cost. This year, even if we have hedged the entire thing, then the hedging cost would have been more than the Rs.7 Crores loss, which we have incurred. But now, it is a little jittery, and the devaluation in rupees is very fast in last 15 days. So now we are taking a very close look at it and what we have reduced our exposure to a very big extent. And there is some natural hedge in the company, like we export. And so almost one-third of our exposure is covered by laminate. And gradually, we are reducing it, because import of timber for veneer and other things, we are consuming more forex. And another silver lining is that we produce two products, which are import competitive, traditional particleboard and MDF. So that way, our sustainability in particleboard MDF is better now with imports cost increasing, due to the rise in dollars. So this is one thing. And the second thing, you know the company from last so many years, we have seen it, our sacrosanct target is 25% growth by hook or by crook, by some acquisition, by some other thing. So 1997 onwards, we have more or less maintained 25% growth. That time, our turnover was around Rs.64 Crores. So from Rs.64 Crores we have reached to Rs.2000 Crores. Next year, it will be Rs.2500 Crores. And then we are expecting many more opportunities. We have many proposals, which is about some takeover or something or acquisitions. We have complete capacity increase our aim is to take 25% growth.

Jiten Doshi: Sure, so even without acquisitions would you be able to grow at least 20% to 22%?

Sajjan Bhajanka: Yes, we are expanding capacity, now it is going to be in view of new capacity, optimizing existing things like next year in laminates within a year, we should increase it by 40% to correlate it to the EBITDA so that would be 67% of our existing capacity. Similarly in laminates, another unit is coming up so that will increase our sales by 60% and in plywood also we are doing.

Jiten Doshi: And where would you see the sustainable margins in the future?

Sajjan Bhajanka: Because of the brand pull, to some extent, we are in position to dictate the prices, but every price increase puts some stress in the availability. So we keep a balance. But ultimately, profitability we have to maintain, because without that, we cannot sustain. So our target is of net profit of around 10%, so that we always try to protect.

- Jiten Doshi:** Thank you so much. That was very useful and all the very best for the current year.
- Moderator:** Thank you Sir. We have a next question from the line of Manish Agarwal from JM Financial. Please go ahead.
- Achal Lohade:** So on the ply business first. You said the less of the high grade ply was sold in the fourth quarter. So the adverse product mix on top of that, we had the higher raw material cost. Could you please elaborate how or what has driven the margin expansion from third quarter to fourth quarter from about from 13% to 15%-plus?
- Sajjan Bhajanka:** One thing I would like to clear raw material for higher products are different for the lower segment is different. So the stress on the raw material prices means for the higher segment. So that will make up by increasing the price. And lower segments are basically the plantation wood available in the country there also at times the stress on the prices. But again, that has to be passed on to the market. And it is very wide-based. So like the unorganized player, these things they do not have absorbing or sustaining power. So in that case, for the lower segment, the price change would be immediate. If there is increase in the raw material cost of lower segment, immediate reaction would be there in the market and price will increase. But for the higher value product, we cannot do many times in the year, hardly once or twice the revised price. So that we have been maintaining so far.
- Achal Lohade:** Okay. So for the quarter, you are saying, basically, we have taken a price increase for the low-end product? Is that the right assumption?
- Sajjan Bhajanka:** It is for both the products. This price increases we are taking both the segment.
- Achal Lohade:** So both the products actually saw price increase, but realization declined because of the product mix?
- Sajjan Bhajanka:** Yes.
- Achal Lohade:** How much was the Sainik volume for the quarter, Sir? Like it was 21% in the third quarter, how much is that in the fourth quarter?
- Sanjay Agarwal:** I do not have detail at the moment. I will let you know it.
- Achal Lohade:** Okay. And the second question on the MDF. In the third quarter conference call, in the month of February, Sir, you indicated we are earning at about 67%, 68% utilization. Yet if I look at the full quarter for the January to March period, I see a utilization of about 55%. Is

there any significant variation in terms of the utilization from week-to-week or month-to-month?

Sajjan Bhajanka: The 55% is averaged from beginning to now. And now, present power situation is 60%-plus. And because we are doing so many improvements also and like now, we have taken a cut down to incorporate a device, which will save 20% glue cost. So a team from Germany is working in the plant and they are changing the glue applicability that technology by new technologies, which we imported at a cost of Rs.5 Crores around and it is being installed. So we shall be the second people to do it. Green, they have earlier done it, and which has saved them around 20% in the glue cost. So similarly, things are going on. And for these things, we have to take a shutdown from two, three days in our designer, we have upgraded the technology, which will save us around 60, 70 units in power. So now with these some technological and others some upgradation, some capacities consume in that. So we are not stopping plants, so far. For want of material, demand or something, we are producing at full swing. Now our policy is whatever market demands, we are giving them. So that way, we are not able to concentrate on profit, and which we have left for the later part.

Achal Lohade: In other words we are focusing more on volume than the profit?

Sajjan Bhajanka: At the moment, we want to focus to penetrate the market because we shall be increasing our capacity also and in future we have to put up more plants.

Achal Lohade: Right. Sir you also indicated that you have discarded certain initial production, which was not off higher quality what could have the loss on account of that?

Sajjan Bhajanka: About.

Achal Lohade: Sorry.

Sajjan Bhajanka: Rs.2 Crores.

Achal Lohade: Around Rs.2 Crores. So if I adjust that I see our margins actually drop substantially from about 26% to about 20% quarter-over-quarter? Is it possible to explain what could be the reason and how do we look at the margins for FY2019 and FY2020 in the light of you trying to meet the volume rather than the profitability and also going down South?

Sajjan Bhajanka: No, no, I think there is some confusion. Because during this period, we have introduced exterior grade also, where the cost is much higher. So the realization is also higher. So now it is not that one-to-one whatever we are manufacturing, there are certain new products,

which are going to inventory also. So it is not apple-to-apple. So during this period, we have produced lot of exterior grade. And I think Keshav would be able to give more light.

Keshav Bhajanka:

I think, the EBITDA for the current quarter, 16%, is at least 20% for last quarter. Amongst the 16%, we have already said that certain material was due to iteration experimentation. Now the quality was not up-to-the-mark. However, during the course of this experiment, we have been able to reduce our raw material cost substantially. As the Chairman just explained, there will be substantial benefit in terms of electricity saving and in terms of glue saving over the next quarter. So in the current financial year, we're expecting a 20%-plus EBITDA from MDF.

Achal Lohade:

Yes, I am just clarifying on the same. Just a small request; if you look at the numbers, Sir, ideally one should look at the margin based on the revenues and not including the inventory increased or decreased because that will only create confusion in the analytics purpose.

Arun Julasaria

Normally you are right because generally opening and closing inventory is always the same, but since this is a new plant I feel if we do not factor it then all the ratios will be haywire.

Achal Lohade:

Great. I will come back in the queue Sir.

Moderator:

Thank you very much Sir. We have the next question from the line of Kritika Subramanian from IIFL. Please go ahead.

Kritika Subramanian:

Sir, again, coming back to the same thing about this realization decline. So if Sainik only considered as economy segment or there are some other things also which are considered as economy segment? Because whatever ratio we are putting, we are unable to get the sequential 10% kind of drop, so can you please explain this bit more, Sir?

Sanjay Agarwal:

Yes, I will explain to you. You see, there are many segments in the plywood. The top segment is like our prime material, the Century Club. And then the next segment is Sainik. What we have done, we have now introduced one item in between these 2, which we call Bond. So anybody else who's trying to compete with Century Ply brings in a product, which is at this Bond level. But he is trying to go to my dealer and trying to tell him that I will give you product which is as good as Century Ply, and which is 10% or 12% cheaper to Century Ply. So that person actually gets a little enticed into it. Now we are offering this material, which can give a competition to all these second grade brands, not the very, very local brand, but the second great brand, who wants to sell a little cheaper. So that has been accepted by the market very well. Then the third segment is the Sainik PF and the Sainik MR. The Sainik PF is 17%, 18% cheaper to Century Ply and the MR is cheaper by maybe

about 25% or 26% to Century PF Plywood. So this is the third level of product, which is a grace in the price level to a product, which any big shop in the country fulfills its material from a good factory who is unable to market, but the shop owner actually market is on its own brand. The Sainik PF and Sainik MR actually are being placed against this kind of a brand. Here now it becomes very easy for the shop owner to sell this material because it has got Century branding and he need not convince, he did not give us after sales service also because after sales service will be provided by Century Ply. So these are the three grades. There is a fourth grade where we do not even think of entering, which is a very, very low grade and we believe that the fourth grade will be replaced by a product which is very, very good, but it is at the price level of MDF. So the MDF will replace that kind of product because MDF is a very, very good product and it has replaced in a very big way that kind of that price range. So right now, Century Plyboards is in a position to offer Plywood and MDF at all levels of the wood panel requirement.

Kritika Subramanian: Okay. Sir, just on the plywood front alone, is it possible to maybe, the exact number is not required, is it possible for you to give what is the share of these economy products for 3Q and 4Q?

Sajjan Bhajanka: Actually, I do not have it ready. Immediately, it is not possible. But if you send us a query, we will give you reply?

Kritika Subramanian: Okay Sir I will take it offline.

Sajjan Bhajanka: Please mail us we will give you a reply.

Kritika Subramanian: I just have one question also. Sir, I just wanted to ask as of now since in April and May, have we cut our MDF prices further since commissioning, how is the price trend been? Have we been cutting prices in this particular segment?

Sanjay Agarwal: So till March actually, we did not reduce any prices at all. Our production came up to 60% material went to the market and there was no problem in the market. In the month of April, one of our competitions had actually reduced the prices. So the whole industry has been forced to reduce prices by about 4%. But I feel that this is a good move, because we need to stop inflow for import into this country and until or unless we do that, the new upcoming capacities will not be adjusted into the system. But if we can stop the imports into India, it will be very, very easy for all of us to survive. As far as the profitability is concerned for MDF tomorrow, I am sure that either the raw material prices or better utilization of the capacity will actually somewhere or other will suffice for it. The total EBITDA may fall a little bit, but still, if we can utilize our capacity getting to the market, entice the consumer to

start using MDF instead of the lower grade plywood, I think, ultimately the industry will win.

Kritika Subramanian: Sure, right, Sir. Sir, one more thing, in terms of the increase of ply prices from the June 1, could you please quantify what is the average increase in prices there?

Sanjay Agarwal: We are looking at increasing about 3%. Yes. It ranges up to 5%, also, in certain products. And in certain locations also, particular location may be a little more invest in West or South, a 3% increase maybe there in East, something like that. It is always a mixture. And actually, we are looking very hard our Chairman has put us on our budgeting and we are looking this year at reducing our input cost also by 1.5%. So I think, that will also help us in maintaining our EBITDA this year.

Moderator: Thank you. We have the last question from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.

Pratik Maheshwari: Good afternoon. Sir, I had heard from dealers that there is a new supply chain management system that has been introduced by Century. So just wanted to understand, what is the impact or what is the impact that you are expecting out of this new supply chain management system? And also Sir, last year or in 1Q, you have discussed that we will be taking our outsourcing in big way. So where are we in our outsourcing plans? And also if you could discuss our capex for next two, three years apart from what 25% increase in laminates capacity and 1000 CBM in MDF? That is all my questions.

Keshav Bhajanka: There are quite a few questions. Let me take the first one. In terms of supply chain, yes, we have introduced a different system. We have started to recruit various consultants, which is basically a module whereby we look at increasing the ROI of the distributor by reducing the investment in the form of stock. Alongside this, we also try to optimize the finished goods inventory for the company and reduce that. So the only sign that are very positive in terms of supply chain. I am sure that going forward over the course of this year we should see an improvement in the total number of inventory days that we carry. On distributor, our main objective is going to be to increase their ROE and I think we should be able to do that through the sale. Your second question was related to the growth, right?

Pratik Maheshwari: Related to outsourcing?

Keshav Bhajanka: So in terms of outsourcing, I believe, we are looking at increasing outsourcing 30%, but it is not going to be a very major impact on us. We have increased our in-house production capacity and utilization and those capacities are going to be increasing over the course of

the current year. However, for certain products such as the newly launched Sainik PF, we are going to be focusing on outsourcing.

Pratik Maheshwari: And how much would that be in quantum, Sainik PF, outsourcing plan?

Sanjay Agarwal: Hello? Sorry, I missed the question.

Pratik Maheshwari: Yes, so I was just asking, so Sainik PF, so what are we...

Keshav Bhajanka: Sorry, I misspoke. It is Sainik and not MR, my mistake, sorry.

Pratik Maheshwari: Okay, so how much of that is outsourcing?

Sanjay Agarwal: Sainik MR is practically outsourced, about 50% of it outsourced and it will depend if we have some capacity expansion and if we are unable to utilize, we transfer that quantity from outsourcing to in source also and slowly when we shift our own capacity to our PF products then we again start outsourcing more and more as far as Sainik PF is concerned, presently most of it because we have just started, so the quantity is not really high. We are certainly expecting to grow this year. Most of it is being made in-house till now, but we are already working with our outsourcing suppliers to develop the product so that it is ready for us whenever we want. If the demand that we are expecting because of all these GST things we are expecting but it has to happen. So when it happens, if it happens, yes, we will be ready to supply.

Pratik Maheshwari: Sir, long-term what are you looking at? So like two, three years where do you see yourselves in terms of outsourcing, what percentage are you looking at 20%, 25% will outsource or 30%?

Sanjay Agarwal: Frankly, I do not have a plan. In terms of a percentage, we do not have a plan. But yes all these new products, this Sainik MR, this Sainik PF, will all go into outsource. We are expecting that our own capabilities will be utilized to manufacture Bond and our prime qualities and Roorkee plant will be used for Sainik. But all other plants would be manufacturing our prime and Bond only. But that is the plan. We need to see how this year and the next year actually the market is and then only, we will be able to devise our policy further.

Pratik Maheshwari: Last question on capex that we may be doing anything apart from the laminates and what we have discussed in MDF. So we last time had also discussed that there could be a South plant for MDF and something in the East?

Sajjan Bhajanka: Like we have signed MoU with the UP government for Plyboard plant and MDF plant. We have also signed the MoU with the Assam government to make MDF out of bamboo and maybe, to give us sugar mill, and they have signed in agreement between the central government and Assam government that Assam paper they will revise, so they have given us the proposal to put up a big paper plant there. So these things are there and we have to do the due diligence. But at the moment we are not frozen anything, so these all will come on merit, on our comfort level, then we are there and then we will create. Then only will go ahead. The position is that the capex plan is in and that is already committed and only now it is the start of production. Our capacity is already taken place. And then on MDF expansion is more or less near capable. We know the people, they have their own synergy, we are planning for few suppliers who have existing trained people are already staying with us and we know that pretty well now. So this will not be much. This would be between Rs.100 Crores and Rs.120 Crores.

Pratik Maheshwari: Thank you so much.

Moderator: Thank you very much Sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Over to you Sir!

Sajjan Bhajanka: Thank you very much for your patient hearing and participation like earlier in the years, I know this year you are a little disappointed, but you know what is fact is fact and we are very much optimistic about the future. In past every adversity has increased our yield to fight and come up with the new ideas with a new plan and take further actions, we will try our best to give our best returns to our investors. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining with us. You may disconnect your lines.