



“Century Plyboards (India) Limited
2QFY2019 Post Result Analyst Conference Call”

November 06, 2018





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Moderator: Ladies and gentlemen, good day, and welcome to Century Plyboards Limited 2QFY2019 Post-Result Analyst Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ronil Dalal from Ambit Capital. Thank you and over to you Sir!

Ronil Dalal: Thank you. Good day ladies and gentlemen. On behalf of Ambit Capital, we welcome you all to the 2QFY2019 earnings call of Century Plyboards. We have with us Mr. Keshav Bhajanka – The Executive Director and Mr. Arun Kumar Julasaria – Chief Financial Officer of the company. Now I hand over the call to the management for their opening comments, post which we can set the floor open to question and answer. Thank you and over to you Sir!

Keshav Bhajanka: Good afternoon friends. I am Keshav Bhajanka, the Executive Director of the company and me alongside Mr. Arun Julasaria, CFO have joined together and we would be welcoming you to today’s call. Firstly, I would like to wish everybody a very Happy Deepavali and I would like Mr. Julasaria to take this.

Arun Kumar Julasaria: Good Afternoon Ladies and Gentlemen

First of all I will like to mention customary disclaimer that this con-call is just to discuss company’s historical numbers and future outlook. In no way this should be construed as invitation to invest in the company.

Results for the quarter along-with detailed analysis is already mailed to you and also hosted on stock exchange and company websites. So I will not take much of your time and take you through only basic numbers and macros.

H1 to H1 last year overall net revenue including other operating income increased from 913.16 to 1101.7, with a growth of over 21%. Out of such 21% growth 14% growth came from MDF and balance from other businesses. Blended EBITDA margins declined marginally from 14.9% to 14.7%. EBIT margins increased from 12% to 12.7%. PBT declined marginally from 10.4% to 10.1%. PAT reduced from 8.1% to 7.6%

For Q2, On YOY basis overall net revenue including other operating incomes increased from 474.6 to 564.4, with a growth of 19%. Out of such 19% growth 13% growth came

from MDF and balance from other businesses. Blended EBIDTA margins are now 13.3% compared to 15.7%. EBIT is now at 11.3% compared to 12.8%. PBT is now at 8.6% compared to 11.2%. PAT is now at 6.7% compared to 8.5%. Primary reason for lower profitability are increase of raw-material cost, which was to be fully passed on and adverse forex difference. The profit for the quarter is adversely impacted for adverse forex movement. During the quarter adverse impact on account of foreign exchange was 10.82. Out of such 10.82, 7.96 is taken as borrowing cost and balance 2.86 has impacted EBIDTA margins. Out of total 10.82, 4 is realised loss and balance 6.82 is mark to mark loss. In order to de-risk ourselves from forex adverse movements we are continuously reducing our foreign exchange exposure From INR equivalent 365 on 31st March to 243 30th June & and now further to 209.45 on 30th Sep. Out of total exposure around 85% was in USD and balance mainly in EURO. As on date almost all of our exposure is hedged and we do not expect further loss on account of forex fluctuation.

With revamping of company's Assam unit tax rate is now 22% compared to 28 in Q1. Going forward tax rate will depend upon profitability mix arising out of ramping up production of MDF and Assam Unit but expected to remain lower than 28%.

Now to come to segments:

While the volume of Plywood for Q2 increased by 13% the value growth was 15% YOY basis. The difference is due to change in product mix. We are now focussing more on mid-segment products where growth potential is better. Overall plywood segment is showing marginal growth because of substantially lower sale of commercial veneer, however. We expect to achieve 16% EBIDTA margins for plywood segment for whole year.

On YOY basis the value growth in Laminate division was flat and volume was slightly down for Q2. There was exceptional sale of Laminates in Q2 last year, owing to re-stocking on account of GST implementation from July17. Profit margins were under pressure primarily due to increase in raw-material cost, which is yet to be fully passed on. With ramp up of capacity and expected improvement in realisation we expect profitability of Laminate segment to improve from second half onward.

During H1, MDF unit has operated at 57% capacity. Reduced prices in the market have lowered the realisation and profitability in this segment. Another reason for lower sale was logistic problem arising out of apple season in Jammu, adjoining to our plant site. However now in October month we had record production of around 90% and sale also. If we can maintain same spree we expect 40-50% QoQ growth in Q3 which will improve EBIDTA margins from 6% to 15%.

YOY basis Particle Board performance has improved with rise in top-line by 36% however EBIDTA margin were at 19% due to reduction in realisation. Here again we are focussing on getting market share rather than profitability. With Dollar appreciation import getting costlier we expect to improve realisation in Q3 and so also profitability.

In Logistic business we had stable operations and expect to remain stable.

The net worth of the company after making payment of dividend amounting 26.78 stood at 894.26.

On debt side, even after taking up major capex, company is still very low geared with long term debt/equity ratio of merely 0.23 against 2 accepted by Bankers. Interest cover was more than 4 times.

All the factors of blended working capital cycle has shown improvement but as payables has come down the working cycle is pegged at 72 days from 69 days. Payables mainly on account of foreign buyers credit has reduced from 8 days to 5 days, for de-risking company from foreign exchange risk

With these words I open this conference call for questions and answers. As promoters of the company are on call I will request you to focus more on quality questions. Queries related to numbers etc. can always be made to myself or Mr Rathi separately.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: My question is on the MDF business, we saw the numbers of one of your competition as well on MDF, just wanted your thoughts on what is happening here in terms of the significant price erosion that we are seeing in the market especially in the context of rupee depreciation, which ideally should be beneficial for MDF given that prices are Dollar denominated in India?

Sanjay Agarwal: As far as MDF pricing is concerned we all know that there is an overcapacity so even if the Dollar appreciating and rupee is depreciating so there might be some benefit probably we will do it in South India, but otherwise there is a fierce competition and I think the prices have come to its lowest level now. I do not think anybody can further afford to reduce prices and what I have seen in the last about a month's time is that the reduction is to the tune of may be 0.5% or 1% that is what people have to come now. Otherwise, earlier people

used to reduce by 5% or 3% at that time, so I think the reduction gain is now at the finishing line and it will become stable. After that now it will be your servicing, your quality and all that and I really do not see prices increasing very soon, but in the next two to three to four months, easily I expect a very good time for us because last month also we have done very well in October month. In November also we are expecting it to be very good, so I do not still have my competitor's numbers for the month of October we have shared it now. We have seen the three months that are not good, we all can see, but I do not know what they have done in October. I will know very soon. Pricing issue I do not think now further will be there.

Chirag Shah: Sure, but Sanjay given the fact that there are still a lot of new MDF capacities coming on stream do you structurally see over the next over two or three years ROCEs is getting maintained at the current levels or there is further pricing in MDF?

Sanjay Agarwal: There are not people coming up anymore because Green has already started their plant about three to four months back and Action also capacity is already started. They have added more than six months back. Both are operational. Apart from that there may be one or two small 150 cubic meter or so coming in, so they already sell at least 15% cheaper. There are companies in South and North, which are selling 10% to 15% cheaper to us, so they are classified into a very different strata of MDF, so I do think maybe bother for them, but at least Action, Green and Century three of us or anybody else in this business I do not think anybody is coming in branded segment and I do not think anybody in the branded segment is adding up more capacity. I believe that in coming year to a year and a half, by the time we end the next calendar year, I think the capacity to be consumed and we will have a much better market and in the meantime also I do not say that we will make losses. I rather believe that this quarter, I think Century MDF will be doing much, much better than what we have performed in the Q2.

Chirag Shah: Understand, so you are essentially saying that the peak pricing pressure in MDF is behind?

Sanjay Agarwal: I think so yes because there is not much of a space left now and there is also no space from imports also where imports are totally gone otherwise there was earlier because our prices were high, our prices have also gone down so import now cannot compete at all, so from area of North India or Central India where we sell about 80% of our produce.

Chirag Shah: With lot of these large capacities coming on stream are there any raw material sourcing issues that people are facing?



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Sanjay Agarwal: Large capacities if you look at North India only Action has come up with this 500 to 600 cubic meter so that is not a problem at all and as far as Green is concerned definitely South India so that in no ways competing with our raw material. We are in Northern India actually and I do not fear about any other large capacity coming in, so this 100 to 200 cubic meter plants it will make no difference to us.

Chirag Shah: Understand and one last question Sir on MDF our expansion plan is now on hold or do we still plan to go ahead with the expansion?

Sanjay Agarwal: We had applied for certain licenses. That is already on. We are pursuing them, but for the moment nothing is absolutely decided

Chirag Shah: Thank you very much Sir. Thank you.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

Sriram Rajaram: Thank you for the opportunity Sir. Sir you were mentioning that the laminate margins could go up from say 8% to 15% could you just elaborate on that front because just want to understand what is causing the pain? Is it because that we are operating at a lesser capacity? Is that what will push up the margins clearly there is domestic laminates are facing pressure, so just want your outlook on that front and on the MDF fronts why is that we have reported a lesser margins this quarter and is it only due to the realization parts so on the laminate and MDF just brief us on the margin impact and apart from that Sir I want to know that the capex coming up for the plywood division, which is about Rs.32 Crores how much would be the incremental capacity?

Keshav Bhajanka: This is Keshav. I would like to take the question on laminates. In laminates we have not said it will not go up to 15%. What we are saying is that margins will definitely increase. The primary reason behind the fall in margins is that there has been a steep rise in the phenol prices and all, which is a major constituent to our raw material cost. Now phenol is directly linked to crude prices and as crude prices shot up, the cost of phenol increased dramatically. Having said that we have taken price corrections and we have increased our prices from the 1st so I think this quarter we will definitely be looking at a higher EBITDA margin, but at the same time, we are not looking at a 15% margin. We were looking at closer to 12% margin.

Sriram Rajaram: Sir how much is the price increase that has been taken Sir?

- Keshav Bhajanka:** 3.5%.
- Sriram Rajaram:** 3.5% and it is accepted in the trade channels?
- Keshav Bhajanka:** It is still very early to say because like I told it was on November 1, but I do not see there is an issue in passing this on because most of our major competition has also either taken a price increase or has announced that they will be taking a price increase.
- Sriram Rajaram:** Sir could you also specify the capacity utilization for H2 how it will be for laminates?
- Keshav Bhajanka:** Laminates should improve. Last quarter we had mentioned was a little different because the base was very high. Last year we had an exceptional quarter and as you know last year Q1 there was destocking and Q2 was restocking as far as laminates was concerned. Now I think you will see a far more steady performance and definitely you will see volume going up quarter-on-quarter.
- Sriram Rajaram:** Fine Sir on the MDF front?
- Sanjay Agarwal:** What was your question on MDF?
- Sriram Rajaram:** MDF margins have taken a hit right this quarter, so just elaborate? Is it because of only the realization or anything else coming into play?
- Keshav Bhajanka:** I will take that. Capacity realization last quarter was low and there was pressure because there was a lot of additional capacity that came. Also there was price competition like MD also specified. Having said that now we have seen the end of price competition. I will not say the end, but we are seeing a gradual reduction in the quantum of price drops, so I do think anybody is going to be taking further price cuts. As such, I do believe that this quarter onwards, our volumes are looking far better than last quarter. We should see a higher EBITDA factor.
- Sriram Rajaram:** You are saying we will do better than Q2 as far as the margins?
- Keshav Bhajanka:** Exactly.
- Sriram Rajaram:** For MDF?
- Keshav Bhajanka:** Definitely. If you look at October, October was the highest ever month for MDF and as volumes increase, the EBITDA margins are going to keep up.

Sriram Rajaram: Fine Sir and Sir what will be the utilization for H2 if you can just put some number to it MDF we will be operating at?

Sanjay Agarwal: We will be 80% plus. What was your question regarding the plywood value capacity utilization. We are adding phased capacity adjusting to our MDF plant. In fact, for MDF plant, we are procuring timber on a yearly basis. In that timber, there is high dia timber also that gets used for plywood. Right now we are using that also for making MDF, so we have been making reasonable price plywood in Punjab and that capacity will ramp up gradually so the main purpose of setting up that plywood unit adjoining to MDF is to use the timber coming out of timber meant for plywood and then using the wastage of plywood for making MDF.

Sriram Rajaram: Fine Sir and on the capacity addition from Sir plywood?

Sanjay Agarwal: Capacity addition, we can make around 50000 cubic meter here.

Sriram Rajaram: 50000 cubic meter here and Sir on the solar panel project, which we are doing any visible benefit that we could see at least in the FY2020 because what is your sense Sir?

Keshav Bhajanka: Definitely. We will definitely see a better foot in FY2020. I think in terms of EBITDA it is going to really contribute and overall I think that the scope for solar was quite good and I think we now fed up close to 5 megawatts, and we are going to see a substantial improvement in our energy cost this year.

Sriram Rajaram: Fine Sir. Thank you so much Sir. I will join in the queue.

Moderator: Thank you. The next question is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: Sir could you please help me with the margin guidance for MDF in FY2019 and FY2020?

Sanjay Agarwal: Margin guidance will depend upon capacity utilization. We are hopeful that we will be able to operate at least at 80% capacity utilization and at 80% we should end up with 16% EBITDA margin at current price levels.

Shrenik Bachhawat: Sir what was the capacity utilization in 2Q FY2019 and currently for MDF?

Sanjay Agarwal: In H1, we had the capacity utilization of 57% only. In Q1, it was around 63%, so you can say we are running at around 60% now and the next half of the year it is going to improve to at least to 80%. For the whole year we can say we will operate at 70% now against 80%

we planned, but in FY2019-20 we should be operating at 80% because the demand for MDF is rising quite rapidly in fact. The growth is 25% to 30% year-on-year, so whatever excess capacity now you can see in the market that will be absorbed within coming three to four quarters.

Shrenik Bachhawat: Sir as I am seeing the realization has dropped by around 4% in MDF QoQ so in 2Q have you taken any price cut in MDF?

Arun Kumar Julasaria: I think about this Q2 I think everybody has taken a price cut of about 3% to 4% to 4.5% so that will be certainly visible and now I think that has come to standstill because two new capacities came into production one was extra 600 cubic meters and another 1100 cubic meter of Green. I feel that we have advantage because we have not gone for any further expansion in the same markets with double the capacity in each one of them will not be able to actually expand their capacity utilization so much as much as we can even if I grow just 20% of my sales is good enough to cross 80% of my utilization actually, so that is how looking into my data of October we feel that we will be able to achieve an 80% utilization with Q3 actually.

Shrenik Bachhawat: Thank you so much. I am done with my questions.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Sir just on the MDF wanted to understand what is the typical lead time to set up a new capacity and what is the minimum economic size to put up a plant not just for us, but if any smaller player wants to come in at what minimum size will make sense to put a plant in this industry?

Keshav Bhajanka: With regards to your question you see the MDF I think have established a faster capacity in the country where capacity is established within 16 months, but taking into account the geographical challenges, etc., I think once we have procured the line we can set up a plant well within 14 months, so that is the sort of duration. Having said that the minimum economic size for a continuous line will be 500 cubic meter plus. There are smaller capacities that are coming in now. Those are multi daylight machines. The major disadvantages of multi day light is that you will have at least 7% to 8% higher wastage, so long term I do not think that makes economic sense, but even people are bringing in smaller sizes because in China people are now moving to continuous lines and all the smaller units that are there in China are now up for sale, so people are bringing those down in very cheap values and they are thinking that MDF is going to give them good return, but with a 7% to

8% cost disadvantage, I do not think it is a very suitable solution. Here again zero debt is from the day you have land in your hand.

Madhav Marda: Got it and on the plywood side what would be the margins that we can expect with the mid segment plywood for scaling up for us compared to the premium segment? Can it sustain at the 16% to 17% levels that we are seeing totally?

Sanjay Agarwal: Yes, in plywood segment we shall be able to achieve around 16% EBITDA margins for the whole year.

Madhav Marda: Great. Thank you so much.

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

Nehal Shah: Thanks for the opportunity. Sir one thing in plywood on commercial veneers as to how much veneer is till probably expected to remain because we have been consistently seeing volume degrowth as well as realization degrowth, which is actually pulling down the growth and the realization for the plywood segment if you can just throw some light on that?

Keshav Bhajanka: With regards to commercial veneer as you know current Myanmar we are not operating or we are operating at minimal capacities. In Laos, we are not operating at all as there is a ban on their exports, so because of this the Keruing is down and this looks likely to continue until we have a positive result on Laos, so I think in the near term we are not looking much of an increase in terms of the commercial that we will use. Having said that we have substituted our own consumption to a far cheaper species of timber, as you are aware, since we are importing Okume from Africa our cost of sourcing has actually gone down, so this is an advantage to us as well.

Nehal Shah: Have we completely shifted to Okume or we are still relying on veneer?

Keshav Bhajanka: In certain grades of plywood, we have converted, not in all.

Nehal Shah: Sir what is the mix currently in face veneer in species what is Okume and how much is PQ?

Keshav Bhajanka: I think Okume will be close to 50%.

Nehal Shah: And the balance should be PQ?

Sanjay Agarwal: Still Gurjan is also continuing. Some expense we have coming in from Myanmar some small quantities coming in and we have some stocks also so our main prime material is only with either Gurjan or PQ. The rest of the things we are converting it into Okume.

Nehal Shah: Sir what would be the mix between a premium and commercial grade in Q2?

Sanjay Agarwal: I think about out of the 35 lakhs or 40 lakhs, I think about 50% is premium material and the rest of it is either standing for the bond, there are many different, different varieties we had. We see that future going in future actually we are seeing growth. We thought that our premium will not grow, but then to our surprise also the premium is growing as good as our the second brands and the third brand also along with it because now with the second and third brand we are able to reach out to smaller places where even in small places there are people who want to buy our premium plywood, so we are getting that growth in our premium plywood also.

Nehal Shah: What kind of growth looks sustainable in plywood say how would FY2020 be looking as of now?

Sanjay Agarwal: With the kind of efforts we are making and segment we have entered with 710 in the base, 710 excluding, I think our volume growth is about 15% in Q2, so I think this 15% will continue in Q3 and Q4. It is good enough, but next year in the next financial year actually I expect this to reach around 18, 19, 20 or something like that because our other efforts also are really helping us. We are building up very well, but yes it is taking time and you all must have heard about the RFID thing that the government has come up with a new idea of RFID where they installing this RFID sensor into every truck, so if a truck is passing through highways or roads there will be sensors which will sense the truck and the truck number will automatically be sent to the computer and the computer will now find out whether an e-way bill has been issued for that or not. If an e-way bill has not been issued then they will send out, they will alert the flying squad and the flying squad will go and interrupt the truck, so we see in the next one-year to one and a half year it may take one-and-a-half year to two year also make the implement across the country, but it is going to change the scenario for business in India actually if it is successful. They only invented in Uttarakhand.

Nehal Shah: And Sir was there any loss of business because of trucker strike and Kerala floods in Q2?

Keshav Bhajanka: In small, small parts, it has not seen in overall if we really do not see, so but yes there was loss of business in Kerala and the trucker strike yes even my September numbers were little lower than what it could have been especially for MDF, because North India had a huge

issue of trucks, but all those are into in India we have all those problems always either Diwali or Eid or Holi or something else.

Nehal Shah: Thank you Sir. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Priyanka Mehta an Individual Investor. Please go ahead.

Priyanka Mehta: Good afternoon. Could you help me out with which prices of plywood and laminated mention in the investor presentation and would they include GST?

Sanjay Agarwal: The is net of GST.

Priyanka Mehta: And these prices ex-factory price?

Keshav Bhajanka: Pardon.

Priyanka Mehta: Are the prices ex-factory?

Sanjay Agarwal: Prices are either ex-factory or our godown because we have got 33 godown, the prices on either ex-factory.

Priyanka Mehta: Could you explain the supply chain for plywood?

Sanjay Agarwal: We have owned six factories then we have owned 30 godown or warehouses, so goods is factory to the nearest godown and from there it will distribute it to our dealers and from dealers sometime to sub-dealers and to customers directly, so that it precisely supply chain.

Moderator: Thank you. The next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.

Nikhil Vaishnav: Thanks for the opportunity. My first question is related to particleboard. Our EBITDA margin has decreased year-on-year why it has decreased can you explain these?

Arun Kumar Julasaria: EBITDA margins in particleboard are reduced because of lower average realization whereas as I said in my opening remarks we are focusing now more on gaining market share larger than on profitability. So that is the precise reason for reduction of EBITDA margins in particleboard, but now particleboard prices are also compared with export price, now with dollar strengthening, we are taking price rise again and EBITDA margins are supposed to improve from Q3 onward in particleboard.

- Keshav Bhajanka:** We are having 100% plus capacity utilization as we are taking a price increase within this quarter itself nothing EBITDA margin will definitely go up, so the strategy that we had adopted to make sure that we had good environmental market today, we have the right position in fact we are in a position where we are dealing with cash flows that we are achieving good deals so that is a very advantage position, going forward our EBITDA will definitely increase.
- Nikhil Vaishnav:** In laminate front, the raw material price pressure will continue and will affect the margin in second half?
- Keshav Bhajanka:** I am sorry I could not get you, could you just repeat that?
- Nikhil Vaishnav:** In laminates side our raw material price has increased, so do you see the raw material prices pressure will continue and will affect the margin in second half of FY2019?
- Keshav Bhajanka:** Still now whatever raw material pressure was there, we have been able to pass that onto the market. Our latest price increase was taken on November 1, so I definitely see that the second half of the year, our EBITDA margin should be higher than the last quarter. Having said that if there is further increase in raw material cost, which does not look to be the case at the moment, we will definitely relook and we might be take a further price increase.
- Nikhil Vaishnav:** Any update on antidumping duty?
- Keshav Bhajanka:** Antidumping duty on laminate. There is no antidumping duty on laminate. In laminate, India is actually a net exporter, so there is not too much of cost.
- Nikhil Vaishnav:** In overall like in plywood or in other products like in last quarter it was mentioned that it is still going on, so I just?
- Arun Kumar Julasaria:** MDF is only item in which there is some antidumping duty from few of the countries that also not available on all the country. We are trying to work with the government to impose duty on all the countries, so this is I think once done for five years or six years it is done, so there is a protection available to us and it is available for next two years. There is no antidumping duty on either plywood or laminates.
- Moderator:** Thank you. The next question is from the line of Jatin Nayak from ICICI Prudential Mutual Fund. Please go ahead.
- Jatin Nayak:** Sir. Are we currently supplying our MDF in the southern market as well?

- Sanjay Agarwal:** Yes, we are supplying in southern market as well and our realization is not too low whether is not certain markets and certain varieties have a realization in Southern market it will be higher than even Northern Indian and there is a particular variety, which is actually water proof it is WWR they called it, so that material sells in Southern India because of proximity to water and that is why that product brings above 30% extra prices. The costs are also little higher, but yes that material sells more in Southern India.
- Jatin Nayak:** Sir, once the Greenply's capacity comes up in the South do you think our product will be competitive because we will be supplying from the North, but they will have a capacity in the South, so any thoughts on our pricing is going to be post the capacity of your competition comes up?
- Sanjay Agarwal:** Whatever price reduction they have to do, they have already done whether they are trying to now bring in some material from South to even central zone whether actually there is Northern plants would be serving, so I do not think that there is any further possibility of prices going down in MDF. Of course if they further reduce and if there is anything then we will have to strategize as per their pricing in the market, but their actions tell me that they are not going to reduce prices. The other thing is actually the cost of timber in South and North, the cost of timber in North is much lesser than the cost of the timber in South, so that also is an advantage to use, but yes we are paying the freight, so that particularly covers up for the difference in the prices, but then the negative side to us is not huge, yes it is there, but then it is covered up by the timber prices.
- Jatin Nayak:** Then Sir in that case do you see the overcapacity in the North to get absorbed by the southern market if everybody starts to supply in the Southern market because to improve their utilization?
- Sanjay Agarwal:** Presently Southern India is being served mostly by imports. Now because Dollar has gone up, but still there are old contracts lying and all that is happening so I think in sometime the demand for MDF in Southern Indian will be met by us only. The movement that change happens, I think all of us all our capacities will be consumed. Like you see we are utilizing now particleboard capacity more than 100% and the reason is only one because particleboard has practically stopped being imported already, so that has impacted us in the market in a big way. The same thing should happen with MDF, but yes we are watching, everybody is watching and we keep our fingers crossed for the movement. Yes, I believe that the prices cannot go down further because nobody has the capability to reduce prices anymore. Otherwise in Northern India also people would have reduced further prices. There is huge competition. People are unable to utilize their capacities.

- Jatin Nayak:** Sir the import prices and our prices are broadly more or less the same?
- Sanjay Agarwal:** Right now we frankly have not compared in last one month or 45 days times. Earlier yes, imported prices were 10% cheaper to us.
- Jatin Nayak:** That is all. Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Picha from MultiAct. Please go ahead.
- Rahul Picha:** My question is regarding plantation timber, so three to four years back, there was a lot of oversupply due to which the prices came down sharply for the farmers post which the plantation has reduced significantly so I have been reading some reports in which it was mentioned that the prices have now started going up because it is a four year cycle after which the timber comes to the market, so how is the supply side of plantation and timber shaping right now?
- Sanjay Agarwal:** There has been no increase as far as plantation timber prices are concerned. There is no increase at all. During the rainy season always because the cutting reduces always the prices go up and then near Diwali again it comes down, so that has happened this year also. As far as your planting cycle is concerned you see very frankly I do not have the data, so I cannot comment, but in Punjab because of our MDF plant we have the distributes about 1.5 million reduced small plant fully we call it we have distributed among farmers, so farmers buy it from us at a reduced price. Suppose it cost Rs.10 we will it to them at Rs.5 and Rs.5 they pay and Rs.5 we pay, so that way we have done about 1.5 million already, but I do not think that there is a reduction in plantation at all. May be a little bit here and there because this has become a kind of I should say because it after five years or 10 years if there is a marriage or there is anything going to happen in their family this is their wealth, so they just plant it and forget it because they do not have to work on that field that all. They work on the paddy fields or something else.
- Rahul Picha:** Basically what you are saying there is no significant reduction in terms of?
- Sanjay Agarwal:** Yes, as far as I know, but I do not have the data, so I cannot actually because you say that you have seen some data. I have not seen any data at all, so I cannot comment.
- Rahul Picha:** Even if it were to happen at the industry level you are saying that we have some kind of backward integration with the farmer, so that we have our supply secured at least for the next one or two years?

- Sanjay Agarwal:** No I am not saying that my supply is secured, but we are doing whatever we can to give an impetus to plantation, so that people will plant more and more. If there has been a reduction then the prices will show immediately. The prices have not shown any increase still now.
- Rahul Picha:** As of now, there is no indication?
- Sanjay Agarwal:** As of now and the industry can afford a little bit of increase. It really does not matter.
- Moderator:** Excuse me. This is the operator. Sir may we request you to come back in the queue for a follow up please, as we have several participants waiting. Thank you. The next question is from the line of Kshitij Bansal from Albert Ross Capital. Please go ahead.
- Kshitij Bansal:** Good afternoon gentlemen. I just want to kind of understand from your vantage point post the implementation of GST? There was a structural shift happening in your favor with the unorganized sector for getting you know kind of converted more in the organized part of it? I was just kind of wandering know how do you see this momentum in its current state and going forward how you can say you this particular process will kind of continue and at what rate? I am just trying to have you your inputs on this part?
- Keshav Bhajanka:** There is definitely a benefit that the important and the benefit should keep improving if you going to happen there is any change and there takes a bit of time. The government is facing numerous challenges and I think that over the course of time, they will have to become a little more stringent in terms of monitoring what exactly is going on. I do not think that the pilferages have been completely dropped out yet. Having said that there is definitely an improvement in the market and there is a shift away from unorganized to organized in the sense that there is much more capacity in white than in black, which has never the case prior to this. The cost for our competition in terms of unorganized that there is definitely and this is only going to help us going forward.
- Kshitij Bansal:** My concern is managing on the fact although this particular shift it seems pretty evident and a lot of other players used to have you know partnered with unorganized players so that they manage the lack of capacity that caters to the additional markets. There are certain companies, you are directly putting more capex expansion and so, just wondering if something has been thought about whether some kind of a partnership or alliance would be partnered with the unorganized players and you can continue to cater your markets better without incurring what other are doing through the internal accruals.
- Keshav Bhajanka:** You see what we are seeing that there an increase in the price. Earlier if you look at market like Gujarat, when the unorganised brand was selling at close to Rs.50. Today, they are

selling same as close to Rs.60, so the cost advantage they used to have, after being organized that happening is difficult, so I do not think that this advantage that they had is likely to continue in the future.

Kshitij Bansal: Thank you.

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Good afternoon Sir. Sir currently the interest rate cycle is upwards and also liquidity, there are some correction, what is your assessment because is it going to slow down because it is already slow and also a discretionary spending is also coming down, so your assessment for demand on your products and also if you can Sir in the shorter phase and longer phase, shorter phase in six months what will happen and longer phase is two to three years?

Arun Kumar Julasaria: Our Chairman, Mr. Bhajanka has also joined.

Sajjan Bhajanka: I heard the question. Actually you see debt equity ratio is quite strong in our case, so competitively like now also we have CC limit of Rs.300 Crores plus and we hardly utilize Rs.100 Crores, so that way there is ample surplus and even like promoters, they also keep some money with the company at the lowest interest rate and promoters, they have more money, but because CC underutilized we have less utilisation, so we are not able to keep our money in the company whereas it would be the first preference, so that way the liquidity prolongs the cash crunch, this I do not foresee in the near future.

Siddharth Rajpurohit: Sorry Sir my question was on the other side on the demand side, so there is liquidity crisis in the overall economy because of NBFCs is not having money or that is interested the other side, so demand side what is your opinion? what is the scenario there Sir because you have the first?

Sajjan Bhajanka: There is liquidity crunch, definitely there is pressure on the realization, but we are following very lower system. Our entire billing and realization is based on SAP, so SAP controls, if they are delayed by even one day, SAP blocks the billing, so Century almost all the dealers and they are the best of the lot in the bigger area, so that way they are strong and at the same time billing will be stopped and somebody who is a regular defaulter then we can cancel their agency, dealership.

Siddharth Rajpurohit: Sir demands, how do you see demand in the six months?

Sajjan Bhajanka: Demand for our product it is increasing. I think my earlier question, they might have shared with you, the last quarter is almost the best quarter although so demand is continuously increasing and the benefits comes from the GST because of the level playing field, because the price, our prices has decreased due to GST and the unorganized cost increased so that in our favor. So that is why we are more competitive now. Earlier we are selling 50% higher than unorganized. So that time people used to pay us 50% more, so now there are more people were ready to pay 25% more.

Siddharth Rajpurohit: Thank you very much and all the best.

Sajjan Bhajanka: I need to say if you talk of liquidity count it has not affected us. if you are pointing to us IL&FS company and other NBFCs we have not felt any impact of that point housing finance market may be there compare will come later on but still no impact that is felt because of the housing finances is coming from there NBFCs.

Siddharth Rajpurohit: Thank you.

Moderator: Thank you. The next question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.

Ronil Dalal: A question was that you have mentioned few calls earlier that MP, Chhattisgarh and Odisha in the premium market was slightly weaker or reduced, so are we facing that anywhere across India now?

Sanjay Agarwal: Because we have launched those Sainik 710, which is lower price product and because of that we are able to enter include the Tier 2 and Tier 3 cities and towns and that is actually you will see I do not think the data is available with you, but we see that surprisingly our premium sale is also increasing, our growth the total growth into plywood segment is about 16%, but the growth in our premium segment is also about 9% to 10%, which is excellent actually. Otherwise, we were fearing that because when we introduced all these products of IS710, Sainik etc., our premium will suffer, but our premium is also growing at this noted the some, but quite wonderful.

Ronil Dalal: Going ahead do you think Sainik volumes will grow much faster than the previous segment?

Sanjay Agarwal: Yes, that is general. It is possible. It is evident to every other commodity or product actually. The lower price segment will always grow faster.

Ronil Dalal: Right. Sir my other question is that you know your earlier guided that laminates and MDF margin would expand, but it has contracted it is most significantly, so Sir any kind of comment on that, what is the any specific reason on why we are not able to meet that guidance?

Keshav Bhajanka: When you look at both these products, laminates or MDF there is a line, alongside that in laminates there is substantial raw material cost increase and all which is a major component that has gone up substantially and this is unprecedented. It has increased in the past year by close to Rs.75 to Rs.80, so that is the reason why our margins are looking very lower and in fact, we have taken a price increase which is the effect of the two efforts, so in the second half of the year we should definitely be looking at improved EBITDA margins. As far as MDF is concerned, last quarter there was a lower cash utilisation and that together with the fact that there was a limited drop in realization has impacted our margins, but as MD has already said earlier in the call, we could not see much of a raw material prices going upward and with higher capacity utilisation EBITDA margins will definitely go up.

Ronil Dalal: Sir so you mentioned for MDF, there has been lower realization, but what I was actually trying to understand is that any reason why there has been in a lower realization, so both laminates and MDF both you are facing overcapacity?

Keshav Bhajanka: But in laminates, there has not been a drop in realization, it is actually due to raw material pricing pressure that the margin has fallen but in the case of MDF, it is due to overcapacity in the market, which is reducing realization.

Ronil Dalal: Thanks that is all from.

Moderator: Thank you. The next question is from the line of Priyanka Mehta an Individual Investor. Please go ahead.

Priyanka Mehta: My first question was, the turnover has increased year-on-year, but EBITDA margin has decreased your year-on-year what could be the reason for that in this quarter?

Arun Kumar Julasaria: As I said in my opening remarks our EBITDA margins has increased because of increase in cost of raw material. The increase in raw material cost is still to be fully passed on to the consumer. As I said, we are selling the branded product and not commodity, we cannot pass on the increase on the raw material price so it is getting passed on but it will take a few months in fact. Part of the increase is in this quarter so the EBITDA margins will further improve, but as on the year EBITDA margins will increase. In case plywood, at least it will

be 16%, in case of laminates, it will improve and in case of MDF also it will improve because the capacity utilisation will be there.

Priyanka Mehta: Thank you.

Moderator: Thank you. We will take the next question from the line of Neha Talreja from Edelweiss Securities. Please go ahead.

Neha Talreja: Sir my question is actually pertaining to laminates, so I think the guidance from the management is that though laminates margin decrease that have seen solely due to the raw material price pressure and as you have taken the price increase, is the price increase enough and our margins will back to the level of 10% to 12% that we were seeing earlier?

Keshav Bhajanka: Post the price increase, I am sure that within the next quarter itself, we will see margin back to 12%. I mean from Q3 itself.

Neha Talreja: What is the volume growth guidance for laminate segment now, you know this quarter was impacted to the base quarter of restocking what we assume for the complete year in the laminate segments?

Keshav Bhajanka: We should be looking a double digit.

Neha Talreja: Double-digit volume growth it is somewhere about may be 14% to 15%. Are we looking a 14% to 15% or may be higher digit growth as we were targeting earlier of about 18% to 20%.

Keshav Bhajanka: We are looking at lower growth figure than we are anticipating. Like I said, there is open plan in the market as such there is a problem and we are looking at 10% to 12% growth for financial year.

Neha Talreja: Okay, my last question was related to plywood, can you just you know there have a breakup what is the kind breakup between Sainik and premium brand segment?

Sanjay Agarwal: You see we divided to 2 parts, one is like premium and the non-premium segments about 50:50 now.

Neha Talreja: It is now 50:50 compared to last year it was?

Sanjay Agarwal: Actually it is very difficult for me really remember.

- Neha Talreja:** Or if it all can you just say what is the proportion of the newly launched Sainik 710 in the total entire plywood volumes right now?
- Sanjay Agarwal:** Sainik 710 is 10% and then about the bond, which we have given it is about 12.5% to 15%.
- Neha Talreja:** Okay. Remaining would be the Sainik and then the premium 50:50?
- Sanjay Agarwal:** It will be Sainik, MR, and then there are many different timbers. We will give you the detail. It is not a problem.
- Neha Talreja:** Sure, we will do that, thank you so much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar:** Good afternoon Sir. I have two questions; one is on the MDF raw material side, so what is the geographical mix, how much we have sold for MDF? My second question is on the MDF margin, so currently well plywood margin is somewhere around 16%, which is even given higher than your competitors, which is for them, it is 15% but we are at 15% to 16% so we are definitely doing better, but then you look at the MDF margin it is still somewhere upward of 20% plus, so do you think in the long-term is MDF margin will come back to 15% kind of margin, which is closer to the plywood margin what is your thought on that? Thank you.
- Keshav Bhajanka:** You see there is oversupply, which is the primary reason why there is a pressure on margin. Long-term, I definitely see higher EBITDA margin and MDF, closer to 15% to 20% because the capexes of MDF is potentially high to justify the EBITDA margins need to be higher. However, in the next year or so, I believe this overcapacity is going to be absorbed. Post fact, the EBITDA margin should start rising and I think long term 15% to 20% is sustainable EBITDA margin that we are envisaging.
- Ashish Poddar:** Okay and on the MDF raw material geographical mix Sir?
- Keshav Bhajanka:** By geographical mix, I do not understand quite understand your question?
- Sanjay Agarwal:** We are buying all our raw material from our internal only. It is mostly either Punjab, Haryana, or Uttarakhand that given only, so it is that zone only, is that you meant or there is something else.
- Ashish Poddar:** So do you think it is mostly 100% domestic?

- Sanjay Agarwal:** Not only domestic, but it is actually from maximum of 100 to 150 kilometers of our factory actually, but then I think the person who asked the question is unable to hear us.
- Moderator:** We will take the question from the line of Arun Baid from Bank Of Baroda Capital Markets. Please go ahead.
- Arun Baid:** Sir just I wanted to ask you know in last call we have guided for 25% revenue growth and 16% blended margins, so most of thing which is happened with MDF and laminates in this quarter, do you think if this is the guidance for the full year?
- Keshav Bhajanka:** Definitely, we can look at 20% growth for this year in terms of revenue and in terms of margins yes there was a little bit pressure that is the way, but we are still going to try to maintain 16% for the entire year, it might be a little difficult, the second half of the year we will be look at 16%.
- Arun Baid:** Okay and just one more thing was based on what you said MDF utilization at 70%, still be should do about 310 to 320 Crores I am correct when I say that?
- Keshav Bhajanka:** Sorry could you repeat that one.
- Arun Baid:** Based on the guidance of the full year of 70% utilization of MDF, which gave in the call right now. We should be doing somewhere around 310 to 315 Crores of turnover is that correct Sir?
- Keshav Bhajanka:** No I do not believe that it will be doing that much, I think that this year we will be looking at 250 to 300 Crores from the MDF.
- Arun Baid:** Assuming that number happens then the margin is there should be how much because we have the first half margins already known, so if we do 300 Crores or 250 Crores can we do 13 to 14% margins of MDF?
- Keshav Bhajanka:** We will definitely do 12% to 15% margins for the year.
- Arun Baid:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.
- Prashant Kothari:** The first question is on laminates. I think the last quarter you are sounding much more positive, but this quarter we are seeing a drop in volumes, so what is change so much?

Keshav Bhajanka: You see last year this was the highest quarter. Last year the effect of destocking was there in first quarter and restocking was there in the second quarter so that element of the higher base has definitely led to us this year looking at a lower segment. Having said that the market pressure was due to oversupply. We believe then the second half we are going to be better prepared. I think the strategies and the correct actions that we have to take and we have already taken. In the second half, we are going to look at a better growth in terms of margins, the margins were lower because of the raw of material cost and these have now been passed to the market.

Prashant Kothari: Second question was on the margins on the plywood business from what I recall your margins in the non-premium segments have been pretty higher than the premium segment was that one reason why our margins were higher this quarter or was there any significant?

Sanjay Agarwal: Our margins in our premium segment were higher than the non-premium segment. So our profits in our premium segment is higher than the non-premium segments, it is about 3% that is about may be 20% higher than the non-premium segment and I think are you asking would the growth and also the profitability.

Prashant Kothari: Somehow my understanding was that your non-premium segment mix is higher margins in the premium segment?

Sanjay Agarwal: No, the non-premium segment has a possibility of higher growth because of the markets share on all India basis the middle segment is about 50%, 55% to 60% of the total pie and the premium segment is only 10% to 15%, so now when we have entered into the bigger pie so the growth will be much, much higher.

Prashant Kothari: Okay fine. So what was the big reason for the increasing plywood margins Sir?

Sanjay Agarwal: If you look at our earlier in the calls, we had predicted that our plywood sale will increase so that has increased to about 15% and we had also predicted that our margins because whenever the cost increase you know the phenol cost increased or the melamine cost has increased, so the passing on takes some time actually. When the cost increased, then we go to the market we tell them they will take another one month or 45 days to really implement the new price list in plywood is slower and I think depends on plywood market situation. So it has taken sometimes and we have implemented all the increases in the market and that is why the profits have again back to normal, which were the profits last year also.

Prashant Kothari: Thank you very much.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Thank you Sir for taking my question. Sir one thing I wanted to understand is that besides Century, Action and Greenply and Rushell décor is there any big capacity coming up in MDF anytime soon in India?

Sanjay Agarwal: Not to my notice.

Pranav Mehta: Sir on the other side, are you hearing anything from the unorganized plywood players how they are currently doing because I think many of them have been seen the working capital getting stretched and muted demand also hitting them, so are you hearing anything on the ground whether they are facing any difficulties and they have taken any price hike in plywood or something like that?

Keshav Bhajanka: You see the unorganized sector had to take the price rise. It is the time I think people are definitely under lot of pressure they are quite few people who have approached that I think record number people have approached us in the last quarter for JV or for us to take up bigger capacities for us for them to do some sort of job work for us. So I think there is a lot of stress in the market. I could take price rise, but I told them the price rise is very well factored in the market, so there is a lot of pressure being created in the system and may be a few of weak players will have to shut down like last year.

Pranav Mehta: I mean in the same as I think in the laminates are there?

Keshav Bhajanka: Definitely in laminates from what I have heard from the market and what I have heard from a few manufacture first hand, they are breathing, they are actually in credit cash losses, so I do not think that model is well preferred so I think somewhere along there has to be a start of point and we have seen this before, it is earlier also there was overcapacity that has been created and once the market became a little tight then people would have either shutdown capacities or have to reduce the overall working, so we have seen the same situation in the market today.

Pranav Mehta: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen due to paucity of time that was the last question. I now hand the conference over the Mr. Ronil Dalal from Ambit Capital for closing comments.

Ronil Dalal: Thank you Mr. Bhajanka and Mr. Julasaria for taking on the time for this call on behalf of Ambit Capital. I wish you all the very best for the remainder of the year and thank you



Century Plyboards (India) Limited
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every one for joining the call. Wish you all of very Happy Diwali. I now hand over the call to management for their closing comments if any.

Keshav Bhajanka: Thank you all for joining us. I hope we were able to satisfactorily answer all the questions. If there any follow up questions you can mail to the CFO and investor team, and they will answer. Happy Diwali to all of you and we hope you have a great year. Thank you so much.

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