



“Century Plyboards (India) Limited
Q1 FY2021 Earnings Conference Call”

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ANALYST: MR. NEHAL SHAH – ICICI SECURITIES

MANAGEMENT: MR. SANJAY AGARWAL – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - CENTURY PLYBOARDS (INDIA LIMITED
MR. KESHAV BHAJANKA – EXECUTIVE DIRECTOR - CENTURY PLYBOARDS (INDIA) LIMITED
MR. ARUN JULASARIA – CHIEF FINANCIAL OFFICER - CENTURY PLYBOARDS (INDIA) LIMITED
MR. ABHISHEK RATHI - CENTURY PLYBOARDS (INDIA) LIMITED
MS. NIKITA BANSAL - EXECUTIVE DIRECTOR - CENTURY PLYBOARDS (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Century Plyboards India Limited Q1 FY2021 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nehal Shah from ICICI Securities. Thank you, and over to you, Mr. Shah!

Nehal Shah: Thank you Nirav. Good afternoon everyone. On behalf of ICICI Securities, I welcome you all to the conference call of Century Plyboards India Limited to discuss the Q1 FY2021 results. From the management, we have Mr. Sanjay Agarwal, MD and CEO, Mr. Keshav Bhajanka, Executive Director; Mr. Arun Julasaria, CFO of the company, we also have Abhishek Rathi to along with the panel. I would request Mr. Sanjay Agarwal to start the call with his opening remarks post which we can then proceed with the Q&A session. Over to you Sir!

Sanjay Agarwal: Thank you, Nehal. Thank you, Nirav. Good afternoon friends. I am Sanjay Agarwal, MD and CEO of the company. Mr. Keshav Bhajanka, Executive Director; Nikita Bansal, Executive Director; Mr. Arun Julasaria, CFO of the company, have joined me to welcome you for the first quarter results call of Century Ply. I am sure none of us had seen such a washout, and I really wish from the bottom of my heart that God's grace be on us and we never see such a quarter again in this lifetime at least.

April was fully closed, except our CFS division, which comes under essential services. So, it operated. In May, we all know India started opening a little bit, but then everybody was very hesitant. So even May was particularly or a major part of it was a washout. But yes, sales have started picking up. June, we did about 60% and that is how actually, April, May, June, the first quarter, we achieved an average of 35%, which actually was a little more than what we expected because we expected about 25% in that quarter.

I believe that we Indians are very learning people, and we adjust with things very fast and we can see that we Indians have learned to live with corona and most of the places have opened and I believe that the situation in April will never be repeated at least very soon.

On the other side, it has crossed 2 million, and we are approaching 3 million and we all are actually hopeful on only one thing that a vaccine is around the corner or maybe October or November or by December, we will have the vaccine.

The channel has no stocks now. The sale is distributed across the month so that is a new thing which has happened with us. Otherwise, month-end selling was a norm.

Payments, we all thought that there will be a lot of bad debts. But we came out with the policy with advice of our Chairman that 55 days were given as a blanket. Everybody was given a 55-day moratorium on everything and then we adjusted little bit with whatever was required now. So, we see that a lot of payments have really come in, and we now really do not expect the bad debts to be as bad as we had thought earlier.

You will love to know, and we are very excited about an innovation which Century Ply has done, has already introduced in the market. You must have seen the advertisements. We have already started the advertisement also. It is the Virokill technology. We have applied for patent registration also for this. I will request Keshav to speak more once I finish, on Virokill technology. This innovation shows our commitment towards business. Despite all the problems going on, Century could still achieve it. Our sustained effort to automize and reach the consumer and influencer is on. But success, of course, will come in parts and it will take really some time before we reach where we want to reach.

Salary and many other expenses have been cut, and that has helped us in keeping the losses under control. The numbers will also show that very, very clearly. That is why you will see that we have even in all the circumstances, with only 35% sale, Century is still not in cash loss.

As spoken earlier, we expect normal numbers in the fourth quarter, but we are quite positive that our achievements will keep improving month-on-month. The MDF expansion presently is on a pause due to COVID and some government issues. But we are very excited about the project, and we are very hopeful that soon we will be able to make progress.

Our debt, which has really come down and we expected that in this month, by August 2020, we will be able to become a debt-free company. But now we will have to wait for quite some time, maybe a year. But our long-term debts are reduced to only Rs.45 Crores now.

So first, I will ask Keshav to speak on Virokill. And after that, I will request Arun Julasaria, our CFO, to take you through key financial data and current quarter costs, after that, we will be open to question-and-answer session. Thank you, ladies and gentlemen.

Keshav Bhajanka:

Good afternoon, everyone. My name is Keshav Bhajanka and as the MD had just said, I would like to take you through what this technology is. You see Century Plywoods has always been a company since inception that looks to provide the best in quality product. We have had numerous innovations, I think, more than 100 innovations since our inception. But I would rank this as the second biggest innovation that we have ever created, after only the borer-proof, termite-proof technology that we brought into the market in 1996-1997. What we have done is we have seen the fear that this virus, this pandemic had created amongst our consumers, and we tried to address it by providing them with some sense of security in them.

We have developed, rigorously tested and got in accreditation and certification for our product, which now is 99.99% virus safe. What this means is that any virus that falls on the surface of our plywood or our laminates, the cell gets ruptured and the virus starts dying instantly. It could take a few minutes or a few hours. But the efficacy is 99.99%. they have been tested rigorously in-house, and we have been tested by the Biotech Testing Services, which is one of the most renowned testing laboratories for these kind of material properties in the country. We have used a Nanoparticles based Self Doctoring Surface Treatment and although there is no test available for COVID-19 in the country because government has not certified, we have used a virus or the testing service that used a virus, which is positive set single-stranded RNA virus, which is very close to COVID-19. So, although I cannot claim today that we are corona free and the product is corona free, the day that the testing becomes available, I am sure we will certify the same as well.

So, this is the step that we have taken, and we are very bullish that this is going to help us further differentiate from the rest of the market and maintain and enhance our position as market leader. Thank you.

Sanjay Agarwal:

First, I will request Arun Julasaria, our CFO, to explain everybody with the data.

Arun Julasaria:

Good afternoon, ladies and gentlemen. First, I would like to mention customary disclaimer that this con call is just to discuss company's historical numbers and outlook. In no way, this should be construed as invitation to invest in the company. Results for the quarter, along with detailed analysis are already mailed to you and obtained on the stock exchange and company websites. So, I will not take much of your time and take you through key details.

During the quarter, the COVID-19 pandemic and consequent nationwide lockdown has subsequently disrupted the economic activities with high uncertainty. In accordance with central government guidelines, the Company's all units and offices were completely closed for the whole of the April month, and started to open from May 4, 2020 onward. Even after May 4, 2020, there were intermittent area-specific full or partial lockdowns at the units and offices of the company. As April was completely washout and May was almost washout, the activity started to pick up from late May. In such situation, our company could not be an exception and our operations also suffered accordingly. Apart from these companies, plywood unit at Kolkata was also closed for almost 30 days due to damages caused by Amphan cyclone in West Bengal in the month of May. On an overall basis, the revenue for the quarter is almost 35% of revenue with corresponding quarter last year. However, despite such major disruptions, company is EBITDA positive and having cash profit. Year-on-year basis, overall blended EBITDA was 2.7% compared to 16.3% in corresponding last quarter. Company continued to all its commitment to all stakeholders and to all vendors were made as per originally agreed schedules, and all order materials were accepted.

In case of our customers, we extended credit period with originally agreed cash discount for a period of around 55 days. Although we could have delayed vendor payments, but we kept our commitments in line with the reputation of Century Ply. These have resulted in slight increase of our debt level and inventory level, but all have come down to a normal level by the end of July month. The revenue in all reported segments was down in the range of 60% to 75%, except in case of logistic segments, where it was down only by 10%. Company's container service stations were falling under essential services, so were not subject to lockdown closure.

Business of companies major domestic and overseas subsidiary is dependent on operations of the company. So, their performance is also impacted. Laos units are still closed, and the viability will again be explored once operations in India are normalized. Company is looking future with optimism. July 2020 revenue was almost 75% of July 2019 revenue. Correction from debtors is normalizing and debt level is again coming down. Loss caused by Amphan at Kolkata factory is fully covered with insurance. Company's conservative ownership low gearing and lower finance cost is keeping company a very comfortable position. Our rating agency, ICRA, has maintained our long-term rating of AA- in its recent surveillance exercise. Company is also spending on advertisement of its newly added feature of Virokill technology in plywood and laminates. This technology kills all viruses on the surfaces of plywood and laminates, and this is well taken by consumers.

Company is continuing to invest in balancing equipment and innovations wherever possible. Planned greenfield capacity of MDF and particle board is kept in abeyance but will be taken off very soon.

With these words, I open this conference call for questions and answers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Vikrant Shah from Credit Capital. Please go ahead.

Vikrant Shah: I would just like to one thing. What would be your take on the industry overcapacity as of this movement and secondly, what would be the take of the company on Reliance entering in the plywood business?

Keshav Bhajanka: You see over-capacity, capacity utilization in our industry is very, very difficult to measure. The reason I am saying this is that the 70% of the industry is unorganized. Having said that, what we have seen in the market is the supply chain for the unorganized sector is disrupted more even for the organized sector. As we say, the cycles are somewhat stopped, and we have seen issues in terms of working capital and other issues as well. So, I think that the utilization level for organized sector would be better than for the unorganized sector.

Vikrant Shah: All right what would be your take on that, like on Reliance entering the category?

- Keshav Bhajanka:** So, Reliance has not entered the plywood business. You see Relwood is a product that has been the market for 3 plus years. The timing of that tweet or that announcement was very, very good. I think we need to have a look at their marketing agency because they have done a phenomenal job. But this has been in the market for quite some time, and it is like the starke board we currently have, which is wood polymer composite. And I think it is a far higher price point product. It is useful for certain applications, but the cost is prohibitive.
- Vikrant Shah:** Alright thank you so much.
- Moderator:** Thank you. The next question is from Sonaal Kohli from Bowhead. Please go ahead.
- Sonaal Kohli:** I have a couple of questions. Firstly, thanks to the new policies by Government of India, where they are discouraging imports and increasing the domestic industry. If you could give some idea about how much of imports currently in India happen from China as far as the furniture is concerned and whether you would contemplate entering the furniture industry yourself as a part for the integration?
- Sanjay Agarwal:** Let me answer this question. As far as this Atma Nirbhar thing is concerned, it is really, really going to help our MDFs. Because of the duties or licensing happening on the furniture, it is going to help MDF in a big way and we expect that MDF industry was stunted because of imports MDF and imports of too much of furniture from outside. So, I think Government of India this time has taken it seriously, and we can see that a lot of discussions and seminars and even the minister himself, Piyush Goyal or others, are really engaging with all the stakeholders. So, this is going to help MDF mostly. Other sides, like plywood, there is not much of import for plywood in India. So, I do not think it will make a difference. As far as timber import is concerned, as it is already, I think it is 5% duty right now, so it is not going to really make much of a difference. As far as laminate is concerned, again, there is not much of import of laminates into the country. So, all those things I do not think will make much of a difference. The most important difference will be for MDF and particle board. You can ask the second question.
- Sonaal Kohli:** So, Sir, what I already asked was, would you have any plans to enter the furniture industry in terms of manufacturing furniture yourself?
- Sanjay Agarwal:** No. Right now, the very clear answer is no. I can get into a lot of detailed discussion why no and why yes, so I do not think that we can discuss right now actually.
- Sonaal Kohli:** And Sir, my remaining questions were pertaining to what kind of measures you have taken for cost cutting? What is sustainable? What kind of measures have you taken in last 1, 2 years, which you think would help you to grow faster than the industry? And lastly, are there any capacities available in MDFs? So by the time you freeze your plans and enter into the Indian category, considering the

balance sheet if we do not take a shorter-term view and the liquidity of the promoters, do you think that there any assets you could acquire in the MDF industry?

Sanjay Agarwal:

See, the first one cost cutting. For the COVID thing, we have already told that we have cut salaries and which we have promised to our people in writing. Now, if we do 80% in the quarter, we will reimburse their salaries. You know that travel costs have become 0 for the moment and so all these costs have really helped in maintaining stability within the company for this moment. Your next part of this question was sustainability of this. I believe that the salary cut cannot stay. It must be reimbursed ASAP. Every one of them are a lot of worried, all the people are. So, it must be reinstated as fast as possible. The traveling part, I believe that it will not come back very soon. And even if it comes back, people have really learned to use Zoom and other online platform. So, it will cut down a lot. And travel costs were not small in any company. So, I think this is one area where I think every company, including Century Plywood will benefit out of it. The next part was availability of MDF capacity. I will request you, if something comes across, please let us know. Otherwise, we are flexible on our part. But I really do not know of any capacity available at this moment.

Sonaal Kohli:

And Sir, my last question was pertaining to measures to grow above the industry and I had also initially inquired, what part of furniture would be imported from China? If you have an idea about that?

Sanjay Agarwal:

Right now, you see a lot of furniture is being imported from China and India does not have any branding, India does not have very good finishing, India does not have a designing but the way things are now government is taking up, you will see a change in next 3 to 5 years so right now, China exports everything, including part of furniture, full furniture. Even a millionaire, billionaire goes there, and he buys the most expensive furniture, even a middle class goes there, and he can buy in 1 container or 2 containers of very cheap or middle type of furniture, everything is available. But I am sure that India will develop its own capacity very soon. One part, I am just forgetting you asked one more question.

Sonaal Kohli:

Sir, you have taken what kind of measures have you taken to grow above the industry company and what do you expect, by 2022, you will be back to 2020 numbers?

Sanjay Agarwal:

Yes, that I have already spoken in my speech that we should be achieving in the Q4. Q4, we will be near to or we will certainly reach the 100% mark of last year so that we are very confident of and after that, the next year, 2021, 2022 will be a growth year. After all these issues whenever I have seen whether it is 2008 or even before that, whenever the situations were bad, after that, the industry and especially Century Plywood has done really, well.

The next thing you said that, what are we doing? Let me answer on what are we doing to stay ahead of our competition.

Nikita Bansal: So, I would like to divide it into 3, 4 steps we have taken over the last 1, 2 years. One is that we had implemented constraints in our supply chain. This has improved availability by 30% and reduced our inventory also by 30%. So that is something that we are seeing ahead of the curve than the industry. Number two is that we have gone into e-commerce. All our products are available on our e-commerce website, and now we are also listed in Amazon and Flipkart in certain cities. And soon, we will be there Pan-India. And we are the first in our industry to do so. So again, especially given the circumstances of COVID, people are not going to the shops. So, this is another medium for them to purchase. Number three, we have implemented SFA throughout our sales force and we had implemented this during lockdown. So it is something that will really help us sell better and then this I think that we are a very digitally transformed for even though we were from the day 1, we were on Lifesize, which is a software, which is used for video calls and conferencing. We are now moving into Google. So, I feel we believe that digitalization is what is going to keep us ahead. Whether it be within our HR, whether it be in a purchase, we are digitalizing in each department of ours. So, I would say these are the few steps that keep us ahead of the industry.

Moderator: Thank you. The next participant is Sneha Talreja from Edelweiss Securities. Please go ahead.

Sneha Talreja: Sir, I just want to understand from you, we have already reached 75% of the sales in the month of July, which is quite I mean, significantly higher than what we have done in May and June. I just wanted to understand where the strong growth is now coming from. Is it on the OEM segment that you have started seeing higher amount of growth? And what would be the breakup? I mean which is a segment which is seeing higher amount of utilization? I believe it would be higher for MDF. So, if at all, you can give some segment-wise clarity and which areas you are seeing higher growth, example, Tier 2, Tier 3? In case you can provide some drop on that.

Keshav Bhajanka: So, let me break this into 2 parts. If you look at segments, yes, MDF has done better. In MDF, we have done more than 100% of last July and you rightly pointed out, this is mostly since OEMs are still going strong. The demand for readymade furniture has increased. And this is a trend that is going to serve the MDF and particle board division going forward as well. On the other segments, I think most of the other segments have been at 70% plus, including plywood and laminates. What is important to remember is that, most of these segments have shown a growth month after month. So, going forward also, I believe that this trend is likely to continue. And there were a lot of lockdowns in the city, because in our trade, it is not very easy to define what exactly constitutes a metro and what constitutes up-country market. There is a lot of overlap. But from the trend we have seen, up-country markets are performing better compared to metro markets. Metro markets have been a little subdued. This has been, of course, made more prominent by the number of lockdowns that we have had in metro markets. But up-country markets are performing well.

Sneha Talreja: And how much of sales would be from metros versus Tier 2, Tier 3? Do we have some amount of break on that?

Keshav Bhajanka: Like I said, it is a very difficult definition because if you look at Kolkata, Kolkata itself can have 3 geography. It can be Kolkata, Kolkata municipal and Kolkata larger. So, we have now done the breakup in that particular manner. But, once we have some data, we will get back to you.

Sneha Talreja: Sure, Sir. my second question was relating to a cost cutting. So of course, we have seen sharp amount of cost-cutting as MD also mentioned that most of it was related to, I mean, salary cuts, which would be reversed at a later stage. How much and, let us say, traveling expenses, which will continue for some more time, savings on that. Which are the cost savings which are permanent in nature and kind of the one that we have really worked on, which should even help us margin expansion or will help in margins beyond FY2021? Can you quantify some of these aspects?

Keshav Bhajanka: You see, there are N number of areas where we have different sectors we have worked on and have tried to reduce costs. So, if you look like during the first 2 months, that was the entire exercise. Once that we have taken is an implemented an SFA for the country. What that should lead to is an increase in sales activity at a lower cost per quantity of sales that is generated. In addition to this, on a lot of areas, such as warehousing, such as logistics, we have taken numerous steps. I cannot quantify it exactly right now, but these will give us long-term benefits. It is a continuous process. But yes, it has been focused on, and it is something that we should see results sooner rather than later.

Sneha Talreja: Sure, Sir. Sir, one just last question, if I may just squeeze in. With your laminate segment, how much of the current quarter's volumes would be related to exports and what is the growth in domestic versus export market in your laminate's division?

Keshav Bhajanka: The export market has done considerably better from the domestic market. I think this is primarily since we export substantially to the South Asian countries. And the South Asian countries have been a little, I would say, more resistant towards corona or have fared a little better against corona. Having said that, I think out of our total volume in the quarter, close to 40% would have come from exports, whereas in the normal course, it would have been substantially lower. It would have been to the tune of 20%, 25%.

Sneha Talreja: Got it thanks a lot Sir and all the best.

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

Siddharth Rajpurohit: On the ad side, Sir, where we have substantially increased our ad expenditures, Sir. So, one I understand is the message for Virokill. But do you see any other pockets or in terms of demand that

is picking up, we can capture more market? What is the whole strategy behind more ad expenditures, Sir, when we see that demand is not yet to the mark?

Keshav Bhajanka: You see branding is never a short-term exercise. Today, the reason why we are developing and the reason why we are perhaps the largest margin in non-standard countries because systematically over a duration. In this quarter, the main reason for a higher spend, I am talking about the current quarter, not the last quarter, on branding will be because this vital property is a very unique property that we are the first to develop, not just in India, but perhaps in the world. And it was very necessary to put this out to consumer if such a product does exist. So, it might not lead to an instant increase in sales. But over the long-term or even over the medium to short term, it should result in growth in sales volume faster than what you would have seen otherwise. I hope that answers your question.

Siddharth Rajpurohit: Yes, Sir. In the near term, do we see any opportunities for capturing more market share?

Keshav Bhajanka: This entire exercise is designed towards this thing. But again, like I said, the scenario right now is very volatile. So, I would refrain from commenting on that. But yes, that is the objective in my bottleneck.

Siddharth Rajpurohit: Okay. And Sir, can you guide more in terms of demand. How do you see demand? How it is improving across our 3 key segments in ply, lam and MDF?

Keshav Bhajanka: So, I think MDF will continue to perform well going forward as well. Like I said, last month was about 100%. And I believe that MDF should see a sustained high volume and a high value performance for the remainder of the year. For laminate, we are looking at close to 70% now. And I think going forward, this should increase next quarter and the quarter after that. I think like MD has already said, by Q4, we will be back on track. But this quarter, we will be looking at 70%, 75%; and next Quarter at 80% plus. For plywood, I think the scenario is similar, where we will be looking at 70%, 75% for this quarter, 80% plus for next quarter and 100% in Q4.

Siddharth Rajpurohit: Okay, Sir. And on the unorganized sector, Sir, although it could be a short-term also, but what is your answer that how is the unorganized sector placed now? Is there a lot of squeeze there? And lot of people will go out of business?

Keshav Bhajanka: You see, this is a question that has been asked repeatedly to every company in the cloud space over the course of the past decade, I believe. So, the resilience of the Indian small manufacturer cannot be rejected. There is a lot of pressure right now, as we know. The working capital cycle, because plywood is very heavy on working capital that has been stretched. There is a stop. The rotation is not happening. So, I think unorganized is under a lot of pressure, but we will have to wait and see.

- Moderator:** Thank you. The Next question is from Shrenik from JM Financial Service. Please go ahead.
- Shrenik Bachhawat:** Sir, I believe 40% of exports on laminates, is that the reason for drop in realization, was laminates?
- Keshav Bhajanka:** Yes.
- Shrenik Bachhawat:** Okay and Sir, could you please explain the reason for improvement in realizations for MDF on quarter-on-quarter basis?
- Sanjay Agarwal:** I cannot relate to the improvement. According to me, there cannot be any substantial change in the realization. We are just checking the data right now. There cannot be any substantial change. The little bit of realization changes because, right now, we are selling a little bit more of pre-lam. So that particle board and MDF selling has picked up faster than the plain one. So that may make a small difference. But that small difference cannot be very noticeable.
- Moderator:** Thank you. The next question is from Achal Lohade from JM Financial Services. Please go ahead.
- Achal Lohade:** My first question is with respect to you have mentioned that July is kind of 70% of last year. Is there a seasonality in terms of the month? Could June, July, August monsoon months, could they be usually softer as such?
- Keshav Bhajanka:** Only Q2 and Q4 for us are the best quarters of the year. So, there is no softness in the monsoon season for us. Primarily, it stems from the fact that there is Diwali in either late October, early November. And most people want to move into the household before Diwali. Otherwise, they lose a 6-month period because of shagun and pooja and all of that. So, for us, Q2 is normally a very strong, very good quarter.
- Achal Lohade:** Understood. With respect to MDF, you mentioned that you are already at 100%. Now what I am curious to understand is, A, there is, obviously the COVID situation, which could have an impact on the approvals part. But would not it be a good alternative to look at the brownfield expansion for the time being in order to capture the incremental growth, as you mentioned that there could be a lot of demand which could come account of Atma Nirbhar plan?
- Sanjay Agarwal:** So, you are saying regarding acquisition of MDF capacities?
- Achal Lohade:** No. Brownfield expansion, sir, at our existing plants.
- Sanjay Agarwal:** Okay so you see in MDF, to really expand our plant or put up a new plant is, of course, there is some difference. But our existing site of Hoshiarpur, we believe that, that area is, for the moment, for some time, we do not feel that we should expand there. Our expansions would happen in an area

where we have better raw material prices and where access to the markets are better. So, I still believe that this expansion, as far MDF is concerned, we do not want to expand in our existing plant for the moment. But yes, thinking can change and if we have problem from the government for the new plant, then yes we may go in for a brownfield expansion in our existing place and as far as laminate is concerned, I think, about 1.5 years back, we have expanded the capacity by 50%. And in plywood, it is a continuous development happening. We are replacing our old machineries from 10 daylight hot presses to 20 or 30 daylight hot presses is going on. Quality improvement, machines now we have practically installed all the quality improvement machines, automated machines across the country. So that is regularly going on. So, in plywood, we are still not satisfied because we are still unable to use 100% of our capacity. So, we do not need to increase our capacity right now.

Achal Lohade:

Right. Just a clarification on the MDF. Is there a plan B if the approvals from the government keeps on getting delayed for the UP proposed site?

Keshav Bhajanka:

You see, we always had the option of the brownfield expansion and I think I have mentioned this in the past as well. In, the same shed can accommodate a second line because it was designed in that manner. The reason why we are focusing so extensively on Uttar Pradesh is because the EBITDA in Uttar Pradesh is going to be higher than the EBITDA that we will get from Brownfield expansion in. The reason being the cost of timber in Uttar Pradesh is going to be lower. Having said that, the option of that brownfield expansion is always there. It is just that this is a long-term project. I mean there is an EBITDA gain that we can get by setting it up in Sitapur, and that is not a very long delay when Sitapur makes more sense.

Moderator:

Thank you. The next question is from Prashant from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty:

So just extending on the expansion you just spoke about. Is there a timeline you are keeping, Sir, in terms of when you are waiting for the approvals before you probably look at any other opportunity? Let us say like expanding Hoshiarpur or probably any other acquisitions? Is there any timeline keeping for this new plant?

Keshav Bhajanka:

You see, by now, we would have already reached a threshold level that we would have to decide within a month or so. But because of the pandemic, certain changes have taken place. And I think December would be the cutoff point, by when we decide between the brownfield expansion or the expansion in Sitapur. We are still very hopeful that we proceed. But I would like to stress that both plans have been laid out in detail. The machinery has been shortlisted for both expansions. We are at a stage where when we decide, the entire project can be fast track for the Company.

Prashant Kutty:

And this is largely not because you are right now constrained, but because probably the government approval has not yet come in, right?

Keshav Bhajanka: You see, the Supreme the National Tribunal has cut down all the licenses that were issued by the Uttar Pradesh government. So, every single license that was issued has been cancelled. And that is now being heard in the Supreme Court. There is a judgment that is likely to come on August 17, 2020. But I think that, yes, this matter is going to be held up till there is a final verdict from the Supreme Court. So, till then, our hands are tied.

Prashant Kutty: Okay. So, at this point of time, Sir, when you are talking about that MDF is probably operating at about 100% and probably month-on-month you have seen improvement. To what extent can the existing capacity utilization go? Because I think when you are talking about 100%, you may almost, let us say, close to 90% utilization. So, to what extent can that utilization go up to?

Keshav Bhajanka: The plant rated capacity is 180,000 cubic meters plus. I am sure that we can produce 200,000 cubic meters from its existing capacity. Last year, our total sales were 1.5 lakh cubic meters. So, I think we can try to extract close to 2 lakh cubic meters out of the same facility.

Prashant Kutty: Which means you should be able to at least go for another 2 quarters without looking at how the trends are picking?

Keshav Bhajanka: Yes. I think even the next Q3, should be done with existing capacity.

Prashant Kutty: Okay. Second one is on the laminate part of the business, Sir. In terms of laminate part, you said that export realizations are lower. Typically, how different is margins also over here and incrementally, what are our thoughts on probably expanding export business, is it going to be a continuous affair for us or is it just going to be a like positive one-off affair of focusing on the export business?

Keshav Bhajanka: You see we have always grown our exports. But again, for Century, the channel has little turnover is cash as real. That is how we operate. So, we look at businesses where the returns are good. The export business, the returns are better than the domestic business. I would say, the EBITDA in exports would be closer to, say, 18%, 20% and it is lower in the case of the domestic business. Going forward, yes, year-on-year, we are growing our export business. This has with a good opportunity to leverage on our strength and perhaps increase our growth in exports slightly. And I think this is going to be a long-term benefit that we get out of it.

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

Madhav Marda: So, my question was on the MDF sector. What I am just trying to understand is that this sector will be is going to grow at good pace in India and that seems to be very lined up? How does the industry evolve from here in terms of the industry structure? Right now, competition is probably between 3 players, which are of any good site. Do you think there can be players outside of plywood, who can

come and sort of capacity you are seeing the growth opportunities? How does that grow? Because in terms of margins, can they sustain at these averages? That is what I am trying to understand.

Sanjay Agarwal: You see, most of the organized sector is between probably 3 of us, Green, Century and Action. But there are 2 other smaller manufacturers coming up who are trying to get second-hand machinery and maybe reduce the total project cost by 20%, 30%. So, they, I think, hold about 25% of the total market and the rest of the market is in the hands of the organized sector. And I think that is true for most of the good industries in India. Going ahead outgoing serve. Can you repeat the question, so it will help?

Madhav Marda: Sure, Sir. So, my question would be this. Basically, it MDF category because of imported furniture, etc, coming down and furniture industry in India, MDF grows in line. Century, obviously, is one of the few people to start off earlier...

Sanjay Agarwal: So, you are talking about is if other people can come to this industry...

Madhav Marda: Yes. Basically...

Sanjay Agarwal: Stay with only the plywood people. Yes, there is always a chance that people from outside will come. But I think that presently being an overcapacity as far as the industry is concerned, which we all know. After the Green's large expansion in South India, they are unable to really achieve their 100% capacity. Then even in the Northern India, you can see that there is a capacity lying idle with a few other manufacturers. So, anybody else coming in is actually a very difficult thing to do. And in the meantime, again, our one plant will come then within that sometime than somebody else within system will, again, try to come up with some more capacity. So, I do not think that people within the industry will give a chance to outsiders to come into this industry. I do not think at all. But yes, the industry is always open, and anybody is welcome from outside. There is nothing wrong about it.

Madhav Marda: Sir, because if I understand, would it be fair to think that MDF is something similar to lines of cement where you add capacity, you cannot travel very long distance to sell the MDF because transport cost becomes a barrier? Can it evolve in that fashion? Is that the right way to think? Because putting up the technology for the production is not anything which is protected, right, so...

Sanjay Agarwal: It all depends on what kind of area for raw material costing is there. So today, North India has very good pricing for the raw material. So, we are extending it out from North India to South India, Western India and Eastern India. But yes, with time, what will happen, that capacity in each zone will come up. The cost of transportation in case of plywood is a little lesser, maybe about 3% to 4%. But in case of MDF, it goes much higher. But still it is not so high, in range of 10% or 20% or 30% that it cannot be transported. But yes, slowly, it will become a zonal industry, mostly. If you

are in North, we would like to sell at least 80% of our production in North. Presently, I think we sell about 70% around of our production into North only. So, it will not become a zonal industry with time and the basic difference between cement and MDF is, in cement, everybody particularly owns the raw material source. But in MDF, none of the people own the raw material source. We are planning in some ways a little bit here and there, but not much. We cannot say that it is substantial, or it will make a difference. So, you cannot equal both the industries. Well Keshav you want to say something?

Keshav Bhajanka:

Yes. Sorry. Just to add on one point. You say when you are talking about plywood, in plywood, the capex cost is very low. In MDF, there is a view, whereas you can invest by second-hand machinery and then start a unit, but there are distinct disadvantages. The first and foremost disadvantage is you cannot get all resource. So today, MDF manufacturing lower than a fixed amount capacity is not possible in a lower plant. You need a continuous press for this, which is an expensive proposition and secondly, the wastage in a multi light press, which again is the cheaper proposition, is far higher. So, I do not think that MDF will see too many smaller companies because for them to sustain and operate it will be very difficult as compared to the larger.

Moderator:

Thank you. The next question is from Sonaal Kohli from Bowhead Investment Advisors. Please go ahead.

Sonaal Kohli:

Sir, as far as your MDF plans are concerned, if you were to do a brownfield, let us say, on December 31, 2020 is you cut off and you decide to go ahead, how much time will it take for you to start the production and if you do a greenfield, how much time will it take you to capacity? Secondly, you mentioned that there are a lot of new entrants in the industry with small capacities. If the demand explodes and you do not want to lose market share, cannot you outsource production and have your branding in place or take over the plant on a lease or do a short-term 1, 2-year arrangement where you do not lose your market share or demand, in case you are unable to meet demand?

Keshav Bhajanka:

You see, answering the second part first. In the case of MDF, like I have already said, there are distinct disadvantages with smaller capacity. So, there are 3 large players who have continuous press. The continuous press provides a better quality and it as the entire range so there are only 3 players. And I think any of the other players, they will struggle to buy the materials that we are providing. The quality will become an issue, and I do not think that is a very workable cut either today or in the future. Secondly, if you look at a brownfield expansion, the time that we had initially taken for it would have been 12 months. However, there is one difference now with this entire India-China scenario. We just need to see how the technical team from China will be coming to India. What are the arrangements? I think if there is no change from the earlier scenario, we can

operate or we can take trial production from the brownfield capacity 12 months from the day, which we decide.

Sonaal Kohli:

Sir, greenfield is concerned, how much time will it take for you to do the greenfield?

Keshav Bhajanka:

The greenfield, we would say it would take at least 18 months. I think within 18 months, we will be able to take out the trial production. We told you a 15-month earlier. But as you know, now things are a little different. They are a little slower to process. So, in the greenfield, I think, 18 months will be in the first trial tile production, at least.

Sonaal Kohli:

So, Sir, you have done a lot of initiatives and congratulations for that. We have seen that every market leader who continues to grow in downward period takes 2 or more measures, which enable to gain share in the future. Is there any wish list of what you still need to do to accelerate the growth over the industry that we have not done so far? Or you would like to do over the next 1, 2 years?

Keshav Bhajanka:

There is a very huge wish list. You will have to spend a day with me to share all of it. But yes, there are a lot of things that we are working on in the short term. And most of these, I believe, are the efficient in our industry, but we have a lot to learn from other companies and other industries. And from companies that are performing well within our industry, maybe a growth. There are a few things that we are trying to implement now, such as the SFA, which Nikita had mentioned earlier. So, the sales force automation tool that we are trying to bring in, it should bring in a lot of energy. The supply chain, we are continuously improving, and I think we are getting the results of that also. It is a continuous process. But yes, we are trying many firsts in the industry and I am sure you will see your results soon.

Moderator:

Thank you. The next question is from Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani:

You mentioned about the raw material for MDF being cheaper in UP compared to our current facility. So, I remember distinctly when we interacted about a couple of years back, we have plenty plantation availability in hoshiarpur and price of timber has fallen to historic lows. So when this plant was being built, we had a discussion that the overall capital supply of timber would be one of the advantages for the Hoshiarpur plant because there is some social forestation scheme that government has taken, and the overall availability of timber has improved in that geography. I think timber has fallen to historic lows in 2018 in Punjab, is around 33 or something like that. So, when you say it will be cheaper, it has anything changed in Punjab for timber prices to rise? Or is it that the Uttar Pradesh prices are still lower than Punjab?

Keshav Bhajanka:

You see, when we were comparing earlier, we used to compare with Haryana and Uttaranchal, which also source majority of that from Uttar Pradesh. Earlier, the possibility of producing in Uttar

Pradesh was not there because there were no licenses. The government has initiated licensing process only in the year 2018. And when we are comparing to Uttar Pradesh, Uttar Pradesh is cheaper.

Anand Bhavnani: So, what will be the difference, Sir, roughly?

Keshav Bhajanka: It will be close to between Rs.750 to Rs.1,000 a tonne.

Anand Bhavnani: Okay, Rs.700 to Rs.1000 tonne.

Keshav Bhajanka: It is tonne.

Anand Bhavnani: Yes, so Rs.2 per kg in Punjab. In Uttar Pradesh, it will be Rs.1 a kg something like that?

Keshav Bhajanka: It is Rs.3 in Punjab, it will be Rs.2.25, Rs.2.3, Rs.2.1, something like that in UP.

Anand Bhavnani: Okay. And we are expecting this to get resolved in the next 6 months, the UP cancellation of licenses?

Keshav Bhajanka: I was expecting this to get resolved last October. But unfortunately, you see it went to the NGT, the passing order. The state of Uttar Pradesh filed in the Supreme Court. Now it is invoicing. It should have been done much earlier. But let us see because this is now a matter in the Supreme Court, so there is no point in me commenting on it.

Anand Bhavnani: So, if I were to see mix, couple of years, until FY2020, only MDF is the capex that you might do. There is no other capex that you will do, whether in ply or laminate. Is that understanding correct?

Keshav Bhajanka: See, we are already doing the capex in laminates, but it is the regional capex where are setting up a 7/3 line in Kolkata at the capex of, I think, Rs.7 Crores to Rs.8 Crores, which is not going to be much, I think, that is about it.

Anand Bhavnani: Okay. So Rs.78 Crores plus MDF capex, that is the only capex for...

Keshav Bhajanka: No Rs.7 Crores to Rs.8 Crores, not Rs.78 Crores.

Moderator: Thank you. The next question is from Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir, how are things shaping the face in your side? How are things in Laos and Myanmar? If I see our quarterly run rate, revenues have come up significantly from like Rs.50 Crores a quarter about Rs.2 Crores to Rs.5 Crores now. So how do we see that?

Keshav Bhajanka: So, you see earlier, this be a segment which was profitable for us. Not directly profitable, but we would get a raw material revenue costs and by selling the remainder to the market, there was still some realization. There are still some meaningful gains to the company. Now, the entire market situation has evolved. Myanmar, the cost of timber went up exponentially. And because of that, the viability of Myanmar reduced. Everybody went to Gabon and now if you look at Gabon, I think 95% of units there will be making off because there is an oversupply and right now, the market is depressed, and we are seeing very low values because of the COVID. But even otherwise, I believe that the segment for us is not going to go back to the levels that you have seen maybe 3 years before or 4 years before, like Rs.150, Rs.180 turnover I do not think that is increasing. Now our focus on this business, at least with the visibility we have today, is going to be for raw material security. And in order to obtain raw material security, whatever B-grade and C-grade material we get, we will be selling that into the market. So, I do not see any substantial in this business. I think it will stay around the same. In a normal year, I think it will stay around the same Rs.50 Crores, Rs.60 Crores pick up.

Karan Bhatelia: So are we seeing like smooth supplies from both Myanmar and Laos currently for our...

Keshav Bhajanka: There is no supply from Laos. But yes, supplies from Myanmar are sent.

Karan Bhatelia: Okay. And Sir, also, we were looking at Gabon for more of a sustainable kind of banking here. So, we had also trimmed down on the capex plan. So how are things currently shaping up?

Keshav Bhajanka: It was not actually due to a more sustained pacing. The reason we are looking at Gabon was because the exclusive document that was used like that is manufactured in Gabon is cheaper cost and as such, in the lower qualities of our plywood, such as Sainik, etc, it would help us be more cost competitive. So, we have the land and the project is being delayed by us only because right now by commissioning the project also, there is nothing that is going to be gained. Like I told you already, 95% of the unit at a loss. So, we are in on that project. When things recover, I think we can set up that project within Q1 because the land is already there, I think the check is ready and I think it is about establishing the machine and starting production.

Karan Bhatelia: Okay and Sir, last bit of question. So, the MDF and particle board would be a rolling capex, so we would not really put the entire money in FY2021/2022, right?

Keshav Bhajanka: Yes, it is going to be a rolling capex and by the looks of it, it will largely be funded in-house.



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Moderator: Ladies and gentlemen, that was the last question for today. I will now hand the conference over to the management for closing comments. Sir, would you like to give any closing comments?

Sanjay Agarwal: Yes. Okay. So, friends, thank you so much for joining us on this call and taking out your time to listen to us and being interested in our company or your company, I must say. And hopefully, we will see you next time in Q2 FY2021 earnings call with better performance, with better hope and with a vaccine in front of us. Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.