



“Century Plyboards India Limited
Q2 FY2020 Earnings Conference Call”

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**ANALYST: MR. AYUSH BAGLA - SBICAP SECURITIES
MR. PRASHANT TIWARI - SBICAP SECURITIES**

**MANAGEMENT: MR. SAJJAN BHAJANKA - CHAIRMAN - CENTURY PLYBOARDS LIMITED
MR. KESHAV BHAJANKA – EXECUTIVE DIRECTOR - CENTURY PLYBOARDS LIMITED
MR. ARUN JULASARIA – CHIEF FINANCIAL OFFICER CENTURY PLYBOARDS LIMITED
MS. NIKITA BANSAL – EXECUTIVE DIRECTOR - CENTURY PLYBOARDS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Century Plyboards Limited Q2 FY2020 Earnings Conference Call hosted by SBICAP 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Tiwari from SBICAP Securities Limited. Thank you, and over to you, Sir!

Prashant Tiwari: Hello everybody. First we would like to thank Century Ply management to let us host this call for them. From the management today we have Mr. Sajjan Bhajanka, Chairman, Mr. Keshav Bhajanka; Executive Director and Mr. Arun Julasaria, CFO.

I would now ask Sajjan to please take the call forward. Sajjan ji please.

Sajjan Bhajanka: Thank you Prashant. Good afternoon friends. I am Sajjan Bhajanka, Chairman of the company. I am accompanied by Keshav Bhajanka our Executive Director, Nikita Bansal Executive Director, and Mr. Arun Julasaria, our CFO. We welcome you all to second quarter results call of CenturyPly.

We have grown strength to strength despite not very good economic scenario which all of you are aware of. Our revenues and margins have improved significantly, and this performance is shown in Q2 numbers. Plywood segment is still under pressure and we are seeing flattish performance here. We have full faith in this segment, our ILP program launched in three of the branches had shown fantastic improvement in the plywood numbers, and however, it is yet to be implemented across the country. Secondly, real estate sector growth is anticipated in times to come which will help in growing in business of this kind substantially. Introduction of GST, particularly the implementation of the GST and corrective reforms will certainly deliver robust growth in times to come.

In laminate division, we have seen exceptional growth as well as significant improvements in margins. This quarter was the best performing quarter for laminate division and we expect much robust performance in this division in quarters to come. Our new venture of MDF and particleboard have reached the optimum and best capacity utilization. The result is, we are achieving desired topline and very good operational margins. Both the divisions are performing well. Recently company is working on some new age PVC products. PVC edge raw material is picking up very fast in building material category. For example, PVC boards, WPC boards, PVC laminates and many more products. We have already introduced PVC boards in the market and getting very good response. We plan to expand our presence and portfolio in this category. The company is also contemplating to establish manufacturing facilities in these new age panel products, once the desired sales levels are achieved.

These are products of future and would increasingly contribute to our topline.

CFS division has faced issues to new competition, and it will take a year or two to absorb the capacity which is newly introduced and performance to come back to normal. The GDP of West Bengal is one of the best in India due to its lower base and it will certainly reflect in our CFS division.

On forex front, our forex exposure was hedged as on September 30, 2019 and we will take suitable measures in future to counter forex risk as and when needed. Now I had over to our CFO, Mr. Arun Julasaria to take you with key financial data for current quarter, post which we are open for questions and answers session. Thank you.

Arun Julasaria:

Good afternoon, ladies and gentlemen this is Arun Julasaria CFO of the company. First of all, I will like to mention customary disclaimer that this concall 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. The results for the quarter, along with detailed analysis presentation is already mailed to you and also posted on stock exchanges and company websites. So I will not take much of your time and take you through the basic numbers and macros.

Comparing Y-o-Y results, our net revenue including other operating income for the quarter has increased by 4% from 564 Crores to 589 Crores. Blended EBITDA margins increased significantly from 13.3% to 17.2%. At PBT level company made a profit 73.49 Crores which is higher by 52% last year in the same period. Profit after tax increased from 37.8 Crores to 52.15 Crores showing a growth of 38%. Quarter-on-quarter total revenue increased by 3% from 573.7 Crores to 589.3 Crores. Our EBIT margins from 16.3%, to 17.2%. Profit after tax increased from 48.14 Crores to 52.14 Crores so an increase of 8%.

On tax front as we are having carried forward MAT credit so we are continuing the old system of normal tax. Now coming to segments, plywood segments both on year-on-year and quarter-on-quarter basis remained almost flat. However EBITDA margins show a bit improvement to 15.5%. Laminate segment there was volume growth of 22% year-on-year basis and there was significant improvement in EBITDA margins which now stood at 14.5% compared to 8% in Q2 last year and 10.5% in Q1 this year.

MDF plant is operating optimally and revenue for the period was 77.69 Crores which is up by 27% year-on-year. EBITDA margins are also at 22.3%. In October month, our MDF plant has made a record production, particle board plant has shown good performance although there was slight reduction in revenue year-on-year basis. The revenue for the quarter are 26.19 Crores. EBITDA margins improved significantly to 29.7%. All the ratio company has shown improvement and

working capital was stable. On debt side we are not taking major Capex, company is still very low geared, the long-term debt equity ratio merely 0.11, as against 2 which is accepted by our bankers.

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

Moderator: Thank you very much. We will now begin the question and answer. We take the first question from the line of Sonali Salgaonkar from Jeffreys. Please go ahead.

Sonali Salgaonkar: Sir thank you for the opportunity, so my question is pertaining more so to the industry, so just wanted to understand how is the demand dynamics right now, particularly also in tandem with the capacity that you supplied both MDF and plywood, and your comments on the competitive scenario?

Sajjan Bhajanka: Demand on both the products, MDF and plywood is growing steadily in the country. We have to go a long way to reach the levels of the developed world and developing world. I will give a synopsis, in India now combined production of MDF and particleboard is around 2 to 2.2 million cubic meter per annum, one million each and plywood production is around 10 million cubic meters whereas China production plywood sales 200 million cubic meter and MDF is around 50 million cubic meter and particleboards is around 35 million cubic meter so there is no comparison although we are competing in the population, so I think there would be robust growth in the both the segments MDF and particleboard and with the popularity of the readymade furnitures because these both the products are just abundantly used as in readymade furnitures and MDF has started replacing thinner plywood as well like 3 mm and 4 mm plywood now more and more people, they have started using MDF instead of plywood, but overall plywood sales also growing because in China we have seen when we compare all 3 products so in China the growth of plywood was the highest in last 10 years, although there was happy growth in MDF and particleboard, so in India also we expect the same pattern and it little different than Europe. In Europe MDF and particleboard substantially replaced plywood so the use of plywood in their total panel products substantially declined and it is dominated by MDF and particleboard, but in China it is not so, plywood is growing steadily and in India we hope the same pattern would be followed.

Sonali Salgaonkar: Sir if I may ask which segment exactly are you expecting majority of the demand to come in so example the premium or the mass segment because as we understand over the past few quarters you have been sighting that you know the higher proportion of demand that you have seen is particularly emanating from the mass premium segment?

Sajjan Bhajanka: I am talking as a whole, like organized and unorganized all together, so obviously due to GST and other there is some migration from unorganized to organized, so there maybe little better growth in

organized sector and as far as particleboard and MDF it is mostly in organized sector only. Particleboard yes there are various levels some small units are also there, but by and large these products are likely to grow and for near future the growth in particleboard and MDF is likely to be little more than the growth in plywood.

Sonali Salgaonkar: Sir my last question is pertaining to the exports and do we see realization bottoming out there?

Sajjan Bhajanka: I beg your pardon, it is about which product?

Sonali Salgaonkar: Export.

Keshav Bhajanka: This is Keshav here, we only export laminates so MDF and particleboard we are have not exported, they have just done a trial shipment to Sri Lanka that too very recently, just to see the viability of export. In laminate export is healthy and I think it should be growing at about 15% year-on-year.

Sonali Salgaonkar: Got it that is from my side.

Moderator: Thank you. We take the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Just wanted to check, you said in the comment that MDF and ply is growing steadily however if I see our plys has been under pressure for a while for the last 2-3 quarters now while MDF has also seen double digit decline in this quarter, just wanted to understand what is happening on these two at the company level Sir?

Keshav Bhajanka: With regards to MDF I do not think there is any decline. I think you looking at quarter-on-quarter whereas for MDF the second quarter is always poor. What happens is during the monsoon season MDF being a product that is very, very susceptible to water and that is not transported in the fully packed form especially from the dealers to the retailers, the product category as a whole experience a decrease, so in MDF we are growing steadily and we will continue to do so. Also I think what the chairman was referring to was a long term prospect of plywood. Of course the actions that the government has taken, there is a lot of short-term pain in the system and that is being felt by all product category including plywood. The only reason that MDF as a whole continues to grow is because of substitution of plywood. The lower end of plywood is being substituted by MDF as such MDF as a category is increasing in size whereas for plywood even though there is no growth in the market, we have been able to maintain our numbers and going forward I am sure that as growth revise then we shall be able to take the maximum advantage.

Achal Lohade: Thanks for the explanation Keshav.

- Moderator:** Thank you. The next question is from the line of Sneha Talerja from Edelweiss Financial Service. Please go ahead.
- Sneha Talerja:** Good afternoon Sir and thanks a lot for taking the question. Sir it is more first pertaining to plywood segment. Sir we have seen certain quarters now that you know we are seeing flattish growth or maybe not a strong growth in the plywood segment when do you see a revival in the demand can take in this particular segments and you are seeing very strong in other categories like laminates or MDF or particleboard?
- Keshav Bhajanka:** You see the plywood demand in country such as China is significantly higher than the demand for plywood in India, as such it gives us great confidence that the similar population going forward the demand for plywood is going to increase substantially. As we have already mentioned in China MDF and particleboard both have grown over the course of the past decade, but plywood has actually grown faster. So India as well once we see the economic growth, once we see sentiment improving I am sure that the plywood segment will be growing both in the medium term and in the long-term.
- Sneha Talerja:** Sure Sir, secondly coming to the MDF segment since you have been stating that you have operated at the optimum utilization rate have you finalized any of your Capex plan on MDF as well as particleboard segment.
- Keshav Bhajanka:** We are aggressively working on the same. We have already got the license in Uttar Pradesh and we are exploring our options, we have not taken a final call yet, but I am sure that very soon you will be hearing from us.
- Sneha Talerja:** Sure Sir. Last question from the laminate segment, this particular quarter we have seen a strong increase in margins, can you highlight the reasons and can you even highlight whether these margins are sustainable or no and what are seeing for this and what is your future guidance for this particular segment, where do we see the margins stabilizing?
- Keshav Bhajanka:** In laminate last year was transition year, it was a very difficult year because one we had entered with the new capacity and secondly the price of phenol which is a major constituent in the total raw material cost for laminate had shot up drastically on account of crude oil increasing and another factors. Now the prices of phenol has stabilized and we have been able to pass on the entire increase that was there earlier to the market. As such margins and laminate are likely to stand far higher than last year, we are looking at 12% plus margin for the entire year and I am more than confident that we will achieve the same.

- Sneha Talerja:** Sir thanks a lot that really helped. Sir just one last question, Sir I think in your remarks you mentioned a lot about the PVC board segment and you introduced them in the market and are you contemplating some kind of manufacturing capacity there?
- Sajjan Bhajanka:** Yes we are now working on expanding our sales in the market and the core manufacturing to start. We need like reasonable capacity so once we reached that threshold capacity sales level, which would sustain because you cannot start with very small capacity in manufacturing so it has to be moderate and adequate and once we are sure of the figures, that we can sell at least 50%-60% of the product in first year, then we can go for that.
- Sneha Talerja:** Sir any tentative figures that what is kind of a capacity that if you will be looking at. What is the minimum capacity that you needs to put up and what will be kind of Capex that you will be looking in that particular capacity?
- Keshav Bhajanka:** It is not a very capital intensive product, so to set up a new capacity I think the total cost would be under 20 Crores. Having said that we are looking at a turnover of close to 70-80 Crores once we are in the touching distance of same or once AOP is towards 50 Crores, I am sure that we can setup the manufacturing capacity. It is a very small project. I think it could be implemented within 6-7 months.
- Sneha Talerja:** Sure Sir thank you so much for answering all the questions.
- Moderator:** Thank you. The next question is from the line of Chetan Gingodia from Alpha Accurate Advisors. Please go ahead.
- Chetan Gingodia:** Hello Sir. Our Gabon unit is likely to come by the end of this year, so what kind of cost saving are we envisaging from this Gabon unit that can come in our raw material cost?
- Sajjan Bhajanka:** Gabon we are likely to produce Okoume veneer so it is replacing the Gurjan veneer which comes from Myanmar and other sources, so yearly it is around 30% cheaper than Gurjan veneer but in case of Century ply, for our premium products we still use Gurjan veneer only and we have started using for the other product which are fetching lower sales price the Okoume veneer, so there would be a saving because in those segments we shall replace Gurjan with Okoume so there would be around 30% saving.
- Chetan Gingodia:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities Limited. Please go ahead.

Nehal Shah: Sir in your opening remarks you said you have introduced ILP program in 3 of our branches which has seen great effect coming in so can you just elaborate on that program?

Keshav Bhajanka: So Nehal the ILP program as you are well aware was tried out in two pilot markets Lucknow and Mumbai. In both these markets over the course of the first six months we have had in excess of 10% value growth which is substantially higher than in other branches across India and substantially higher than our overall plywood segments, so I think we are reasonably confident that the program has now found its feet and I am sure that within the first half of next calendar year, we will be rolling it out to at least 4-5 new branches, going forward, next year we should see the true benefit of ILP.

Nehal Shah: Is it the same thing as Theory of constraints?

Keshav Bhajanka: Yes it is same Theory of constraint.

Nehal Shah: Alright on the last thing what are we doing as far as Laos is concerned are we take any decision to take write off or we still contemplating to put up a plywood plant there and export it to India?

Sajjan Bhajanka: Very recently there are some developments in Laos. Government of Laos had allowed us to export veneers which are lying there and at the same time government is asking us to start the plywood unit there and then like as we explained to the government that without veneer export, plywood is not viable because the raw material is mostly the Gurjan timber there, it is costly raw material and in plywood is 90% is around core veneer, 10% is face veneer and Gurjan gives us around 60% face veneer, 40% core veneer, so if we convert the entire timber into 90% core and 10% face to utilize the entire this thing then it will not be economically viable and if government allows us to export the surplus face veneer like we sell manufacture plywood there, still utilize entire core in manufacturing plywood and then the requisite face in manufacturing plywood then the surplus face we have to export so that we are trying to indicate to the government and they just advised us that first you start manufacturing plywood, you start that unit and then you come with your problem to us, so there is this development and with this we are now just analyzing the situation and in the meanwhile we are also looking to have somebody more resourceful in Laos so maybe we may change our existing partner or include new partner to make it more viable, so we are analysing all the options so maybe we will take call very soon.

Nehal Shah: Sir my last question is on commercial veneer volumes, now we started hitting strike rate of almost like 3000 CBM per quarter from around 5000 to 6000, so what according to you would be normalized volumes once the Gabon unit starts?

Sajjan Bhajanka: Yes definitely because the Century in the past our practice was to manufacture sufficient quantity of veneer, the quality veneer , the higher quality veneer, we use in our own plants and the secondary is

the next qualities that we used to sell to the market in Punjab, in Haryana where all type of manufacturers are there, so in the last almost 20 years we have been dominating the veneer market in India, but one thing I would like to tell you that veneer was never contributing to our bottom line. It was giving us hefty turnover but really veneer was never very profitable item, only the units we had in other areas, other things they were assuring our raw material requirement so basically it was for the raw material security and then it was cutting our cost also. Our cost of the face veneer that was being reduced by our units, so this thing will happen when the Laos would start production partly the materials we shall use in our factory for manufacturing plywood and partly we shall sell in the market and maybe as other people are doing in Gabon, I am talking about Okoume, so the other people they are also exporting in European market and even the China, Taiwan, in that market so what is profitable at that time we still decide but still we may take another three months to commission the plant.

Nehal Shah: Sir what would be your capacity there?

Sajjan Bhajanka: We are putting up five lines so again the capacity would be around 2000 cubic meters of timber and 1500 cubic meters of veneer there.

Nehal Shah: This is per?

Sajjan Bhajanka: Yes it will per month.

Nehal Shah: Per month so Sir finally so kind of commercial volume sales are we looking at say in FY2020, the external sales which has now declined to almost 3000 CBM

Sajjan Bhajanka: There is one good thing like Burma is picking up, so the Gurjan timber price in Burma in comparison to last year it has reduced to less than 50%, last year around this time we are buying timber in the auction for 1200 or plus dollars which is now below \$600, so that way it is becoming viable again and we have procured lot of timber in recent auctions and we are augmenting our peeling capacity in Myanmar, so there I think the things will pickup from Myanmar. At the movement we are not working about the figures and other things, so maybe it will be depending on the market scenario and now it is not very good for Gabon I would say, Okoume there is absolutely over supply and people they are reducing their production and some of the units have already closed down in Gabon so seeing the situation ours is not for the selling in the market, our is mainly for own requirement of face veneer so up to that we shall I think operate and seeing margin in trading or selling it or exporting it, that will take a decision later and Keshave wants to add something to this.

Keshav Bhajanka: Well as you are seeing the figures for commercial veneer had been declining for us. On today there are at very minuscule level, now going forward the company's decision is that our primary focus is

going to be on sourcing commercial veneer for our own plywood because as you know the prices have fluctuated a lot over the course of the past year, the cost of timber fluctuated a lot and the dynamics in the market have completely changed, so whether it Gabon, whether it is Myanmar our focus is going to be first towards ensuring raw material security for ourselves and whatever excess we are generating because we are only buying the top grade of veneer will be sold into the market, but otherwise this segment today is a very negligible segment of our entire balance sheet and I think it is going to continue to do so even as we go forward.

Nehal Shah: Sure thanks a lot.

Moderator: Thank you. The next question is from the line of Abhay Agarwal from Piper Serica PMS. Please go ahead.

Abhay Agarwal: Good afternoon, you said that the cheap ply is getting replaced by MDF so it is possible for some of these cheap ply suppliers in the market to look at importing MDF from Asian countries or other countries where there is a surplus of MDF, that is my number one question Sir and second question is that is the distribution chain for MDF different from ply?

Keshav Bhajanka: So there are number of people who are already importing MDF into India, as you know there is a supply influx for MDF the world over but in north India the saving for us is the huge cost of transportation for MDF. MDF is a very low value for tonne product as such the transportation cost or MDF is substantial from costal areas to the north. As such we are not affected substantially in north by import but definitely in costal areas of the country imports have had their effect and that is pretty obvious looking at the situation of the market as well. So in case of MDF as you asked, there is huge influence of import. As far as distribution channel, in MDF there is one big difference even MDF there are large dealers, there are distributors but these people are supplying to OEMs whereas in the case of plywood, the demand is most towards individual home owners or the final manufacturers of the furniture themselves, whereas in the case of MDF material is being sold to smaller OEMs or large OEMs who are using this to manufacture readymade furniture so that is the difference between the distribution of both, but both rely on distributors and dealers, the set of distributors and dealers for MDF and plywood are affected.

Abhay Agarwal: Okay thank you so much.

Moderator: Thank you. We take the next question from the line of Gaurav Agarwal from Bowhead Investment. Please go ahead.

Gaurav Agarwal: Good afternoon Sir thank you for you the opportunity. Sir on the MDF side we have seen very EBITDA margins in the last two quarters like 22% to 23% so is there is any one off element to this

margins or is there any particular cost related to marketing or sales which is yet to be accounted may in Q3 or quarters coming so which may pull down your margins on a year basis, so if you can give me EBITDA margin guidance for FY2020 and is there any element also in the current margin?

Keshav Bhajanka: Definitely, what you see what has happened is over the course of the past few months, the cost of our raw material has reduced, glue in particular has reduced substantially. The cost of glue that we are purchasing last year on the cost of glue that we are purchasing today there is almost a 20% reduction so that has helped in our EBITDA margin along side that operational leverage has benefited us. Going forward I do not think there is going to any major change in terms of the EBITDA margin, yes we are planning for certain increase in marketing expenditure, but that I think is going to be limited maybe 1 odd percent.

Gaurav Agarwal: Sir in this quarter you have seen very big high other income like 8 to 9 Crores this kind of income so what exactly has lead to that sharp movement?

Arun Julasaria: You are talking of other income?

Gaurav Agarwal: Yes Sir other income.

Arun Julasaria: In fact major part of that is coming from sale of part of our corporate building around 5 crores

Gaurav Agarwal: Sir if you can give me a yearly guidance of various segment and margins?

Keshav Bhajanka: Okay so for this year, if you look at plywood I think we would be looking at a growth of about 6 odd percent in the second half of the year and we are looking at 2-3% growth for the entire financial year, we are going to try to maintain EBITDA at 14% plus. In the case of laminate we are looking at 15% plus growth and a 12% plus EBITDA margin for the whole of this year. MDF we are going to maintain 20% plus growth and 20% plus EBITDA margin, particleboard we are looking at a 10% growth and maintaining 25% of EBITDA margin.

Gaurav Agarwal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Abhishekh Joshi from CGS CIMB. Please go ahead.

Abhishekh Joshi: Sir I wanted to ask what is the difference between the margin of prelaminated MDF and plain MDF.

Sajjan Bhajanka: Prelaminated MDF is a value added product and like there is hardly any difference in the volume because the lamination is very very thin so after even the pre laminating the volume remains the same so with the same volume there is around 30% higher sales price whereas our additional cost on

laminating it is much lesser than that so prelaminate board the more we are able to sell prelaminate board, that improves are margin.

Abhishekh Joshi: So at what rate can we see prelaminate MDF increasing going into the future?

Sajjan Bhajanka: Well like particleboard our target is to go for the 100% prelaminate and we are already up to the 70% level, 70% of the sale is prelaminate and MDF there are various usage, so the MDF used for handicraft and the MDF is used for inner use in the furnitures and even partitions for the ceilings and like veneer MDF is being used as a replacement of the plywood so there it is not required to be prelaminate so I think moving maybe 25%-30% the share would of the prelaminate.

Abhishekh Joshi: So what is your view on shares between the plywood segment right now and the MDF for furniture in Indian market, what proportion is this?

Sajjan Bhajanka: It is like MDF as a whole it is hardly 10% of the plywood at the moment so with that gradually it is finding more and more users because cost wise it is being sold at almost 50% of the plywood, and it is very steady product so earlier it was sold only for OEMs but now gradually it has started being sold from the regular plywood source also, and recently I had been to market so there some demand came through a contractor and carpenter and he asked we need Century MDF, I was very happy that in MDF now they started mentioning our brand so if this situation improves and like plywood if MDF also people insist on quality and the brand, so for the branded player that will be a very good situation.

Abhishekh Joshi: Sir so as you are saying that the proportion of MDF is increasing right now in comparison to plywood so is it that MDF may cannibalize plywood market or is there enough space in the market for the growth of both plywood segment and MDF together?

Sajjan Bhajanka: Our per capita panel consumption is very very less, it is less than 2 square meters per person per annum and whereas the same thing in China is almost 20-30 times of India so it has to grow. We cannot lag behind so much so both MDF would grow, particleboard would grow and plywood would grow and the base is very low for MDF and particleboard so these two products would grow faster. These two products because the base is only one million cubic meter each whereas plywood base is 10 million cubic meter plus so having the low risk for MDF and particleboard, the growth is likely to be little hefty in these two segments.

Abhishekh Joshi: So there is no scenario where the MDF and particleboard growth cannibalizes the growth of the plywood segment?

Sajjan Bhajanka: Partly in certain segments, it may cannibalize for the thinner plywood it may cannibalize, but again there are certain usage which requires only plywood, it cannot be replaced by MDF or particleboard and more for the tailor-made furniture through the carpenters still their preference is plywood, because plywood is having a bigger impact resistance and bigger maneuverability like screw holding capacity, other things, cutting, fixing, there are well established methods for carpentry and furniture making, tailor made furniture making with plywood, so MDF and particleboard would penetrate firstly the readymade furniture industry and then to some extent maybe particularly the MDF may replace thinner plywood in time to come.

Abhishekh Joshi: Sir the other question you were saying that it is kind of supply glut of MDF in northern India they why are we delaying our decision so much to an establish a new MDF capacity in northern India?

Sajjan Bhajanka: I think there is no supply glut because the imports are open if there is scarcity in the market, imported materials could enter the market, but taking the license, acquiring the land and then starting manufacturing capacity it takes time and we do not want to move ahead hastily, we took the license, we are negotiating with the plant supplier we have one team working in UP, they have find out good plots of the land, so land we want to acquire where the connectivity is good, where the underground water is available, because MDF particleboard consume lot of water and MDF particularly and then the ability of electricity nearby so these are the factors taken into account, we are searching the land and we are almost sure we are going ahead with that and here we are planning to have a unit it is a new concept that we are contemplating to utilize is making particleboard and MDF in the same line, there would be little bit higher cost of that plant, but that will give us flexibility for both the products. We can make MDF, particleboard and then going ahead in future as per the demand in particular segment we can adjust our manufacturing.

Abhishekh Joshi: Sir my last question in mid ply segment how much is outsourced and how much we are manufacturing of our own right now?

Nikita Bansal: We are actually outsourcing approximately 9 out of 15, so about 65% so we have two brands which is Sainik MR and Sainik PF, so Sainik PF is completely and completely in-house and Sainik MR we outsource atleast 90% of this.

Abhishek Joshi: Thank you that is all from me.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My question is with reference to the Gabon plant can you please tell us total requirement and when we are going to start it because you mentioned that it will start this quarter or next quarter and how

the ramp up is going to happen and therefore because of this what kind of total cost savings you are looking for?

Sajjan Bhajanka: We shall be starting production in Gabon maybe in the next quarter that is Q4

Rajesh Kothari: The January itself or it is going to end of quarter.

Sajjan Bhajanka: Maybe in February or early March.

Rajesh Kothari: Okay February and you mentioned about capacity 2000 cubic meter and 5500 cubic meter of veneer on per month basis...

Sajjan Bhajanka: 1500 for veneer.

Rajesh Kothari: Oh sorry 1500 cubic meter of veneer per month so from April onwards what will be the capacity utilization you are looking for?

Sajjan Bhajanka: There are two aspect of this. One is our own requirement, so that will be limited to our own requirement of face veneer for suppose whatever we manufacture 50% is a prime grade, 50% is a lower grade, so we still manufacture only that much which fulfils our requirement of prime grade face veneer and then the next 50% of the lower grade we sell in the market, but if the market conditions are good, if you can make profit in selling even prime grade also in market, so in that case we shall produce more, but at the moment the present condition of the market is not very congenial to that, now people like mostly lot of traders have entered this field and they have face veneer market so presently we are getting benefit of that, presently we are getting Okoume veneer from market at a very lower cost, but when we shall be manufacturing ourselves that time we have to adjust as per the popularity and as per own requirement.

Rajesh Kothari: So totally on yearly basis what are our total requirement?

Sajjan Bhajanka: Yearly we manufacture around 150000 square meter of plywood so our daily requirement of face is 150000 sq. m and for this one and a half lakh sq. m of face veneer it is partly divided into Gurjan and partly into the Okoume, so it will depend when in February or March what is the situation accordingly we shall organize our product mix.

Rajesh Kothari: So basically let us assume the current market condition as it is where it is basis and at the same time you mention that Burma timber price also started reducing

Sajjan Bhajanka: Yes.

Rajesh Kothari: So one should assume the gross margin for your plywood segment post plant commencement, lets assume from April?

Sajjan Bhajanka: You just see that we look at from that angle, that veneer is our must raw material, face veneer and at the movement there are only two face approved in the country one is Okoume and one is Gurjan. Gurjan is well accepted by the market, everybody prefers Gurjan to the Okoume, so for our prime products until Gurjan is available we shall not go for Okoume so that will continue and in the veneer market also now Gurjan prices are coming down, they are again floating back to the Gurjan and Okoume yes it is much cheaper for thinner plywood for cheaper plywood, people will go for where plywood is sold as a commodity they will go for Okoume and for the thicker, for the bog board, for other purpose people would still prefer Gurjan, so that is the situation and as far as we are concerned our prime concern is our own face veneer requirement so that in any condition we have to meet and when we have both the availability Okoume and Gurjan then depending on our own requirement and potential in market we shall decide our total quantum of production. If market is good, we will produce more meet our requirement and sell in the market or otherwise we will consented in meeting our requirement.

Rajesh Kothari: Yes I was talking about that, so lets assume that you meet your own requirement right now assuming industry conditions basically allows you to do on your own rather than selling the market because traders are also very active in the market in that case Gurjan then how much you think cost savings can happen because of that?

Sajjan Bhajanka: In any case our own units when we manufacture as per our requirement so defiantly that would be cheaper, but at present the moment people are selling Okoume veneer at a loss in that situation maybe if people are selling at loss and we can buy it but this situation cannot continue for very long, because in veneer industry the other variables are very very less, it is directly related to the raw material cost so if like the timber is the only component in veneer and if it is not making profit, people they can stop manufacturing any time, so this is short time scenario that there was more production because lot of new people took into veneer manufacturing Gabon so I think this is a very short time situation and the long term scenario would be descent the reasonable margin in manufacturing activities also and then for us it is very important that we shall have right kind and quality of raw material for our manufacture.

Rajesh Kothari: Okay thank you.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Asset Management. Please go ahead.

Manoj Bahety: Hi thanks for taking my question. I just want to take our discussion on Laos forward where you mentioned that you have to start a plywood unit there and thereafter the decision will be taken whether the face veneer from Laos will be allowed to be exported and if that is so, are we putting some more Capex in Laos because the earlier Capex itself as of now, I do not think that there is a certainty on that so if you can give some more color and details on this please?

Sajjan Bhajanka: No we are not planning to put any more Capex there, we have already established plywood unit, it is already existing there and we have sufficient veneer capacity so no more Capex is required, only decision we have to take should we because even mobilizing technical people from India and then local labors and to start production, so it also needs lot of effort and some working capital may be required for that, but again we have to look into the margins, suppose if we start manufacturing and if it is not profitable then there is no purpose because when we close down the operation there in Laos that time the operation of manufacturing plywood until veneer was allowed to be exported we were earning money there and it was very good, giving us very good quality of veneers and we are selling in the market also so that was very good situation, but after that we have to manufacture plywood so for almost six to seven months, we produced lot of plywood there, and in the plywood operation we lost money, because the labor is very costly in Laos, transport is costly from there Laos is a landlocked country and then again with the cheaper core not available at that time so manufacturing plywood using 100% Gurjan so the raw material cost was higher and again plywood we had ample capacity in India so that way to move the labor, technical people there in Laos, paying them extra money, anchoring, so that time it was not viable and now the same question is there unless there is assured of veneer export, maybe this will not be viable for us, so we are taking that decision, we are negotiating with the government if they can assure us that partly they will allow veneer, say we manufacture 1000 cubic meter of plywood, so with that if they allow equivalent to plywood 1000 cubic meter of veneer we can allow you, then it will make sense, then it will be very very profitable.

Manoj Bahety: Okay and the government is like willing to at least negotiate and talk on this. They do not want that this unit will shut down and you go out from the country?

Sajjan Bhajanka: They are not happy that all the units have closed down, there is not only our unit, all the units in Laos even some Vietnamese people they have put a plant there and so all without exception all the plywood units, all the veneer units in Laos closed down, so they want some activity to be start but at the same time as they are willing to allow timber also because Laos is a developing country and they have lot of hydel power potential and so lot of hydel power plants are coming up there and for those plants they have to clear lot of land otherwise it would be submerged within the area where the hydel plant so that timber they want to give, they want to consume and then for transporting the power they have to lay lot of power lanes and for that also they have to clear forest it and again new roads are being constructed in Laos so for the infrastructure and the all things they have to clear lot of land and

thereby they are producing lot of timber so now the entire timber is being wasted because it is not only veneer they are not allowing timber also moving out of Laos and their main thing is environmental. Laos is a small country and the way timber cutting and the all were started so their government that were little apprehensive that they sell so they have to balance in between because keeping the forest totally idle will not be a good there should be a sustainable growth even there is no cleaning of the forest then it would start decaying, so they have to keep it balance in between that, but again that is their government situation we are not in position to dictate that so we will go by whatever decision that government takes if we see some money in starting operation we will go for that and surely for losing money, we shall never go.

Manoj Bahety: When we will take this decision, this is like first you will get commitment from the government like 50% of equivalent veneer if they allowed you to...

Sajjan Bhajanka: When this much critical situation is there so there cannot be very straight answer to this so we are trying our best, our main thing is we can revive the unit profitably that would be our aim, so whatever is required for that some lobbying, other things, some change in the partner we are working on that, so if get positive definitely we shall share with you.

Manoj Bahety: My second question is on MDF, since I think very soon we will be almost running at close to 85% to 90% kind of capacity utilization and since it is like almost 1.5 years, 2 years it takes for new capacity to come up, so if you can give some color on that like how soon we can see the new Capex announcement and what will be the quantum of that whether there can be some brown field expansion before going to the Greenfield expansion so how it will unfold?

Keshav Bhajanka: This is the first MDF capacity we setup the Hoshiarpur plant, we took 16 months despite a four month delay in commissioning due to a problem that we could not get power due to a certain vested interest or due to a certain agitation that took place there, so we are more than confident that looking within 12-15 months we will be able to execute any MDF project, having said that today setting up a capacity in MDF is not a short-term decision, it is very heavy Capex decision, it is a decision that is there for decades to come, not for years to come, so we have to very carefully plan the same and as you Uttar Pradesh some of the cheapest place country so we are acting quite quickly on the Uttar Pradesh project but we have not been able to finalize all the details, as soon as we do we shall update it.

One more point that I want to make it our current MDF capacity is what we are operating at is 85% to 90% of rated capacity, we can definitely stretch beyond our rated capacity and I am sure next year you will see us functioning at least at 100% capacity, so we have that buffer as well.

- Manoj Bahety:** Sir how much more we can go and is there is any chance of doing some brownfield expansion at the existing fleet?
- Keshav Bhajanka:** No the reason behind the same is again it is a very high Capex, heavy Capex decision and secondly in Hoshiarpur the availability of timber suitable for our unit but expanding beyond this may lead to increase in timer cost for our existing unit as well so in Hoshiarpur there will no brownfield expansion as of now until the timber availability improves.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.
- Ashish Kumar:** Thank you and great set of numbers. Congratulations on the great set of numbers especially on MDF and laminate side, just wanted to understand on the working capital side, the number of days has come down significantly in the six months, do you think this is sustainable or is there a possibility of an improvement going forward?
- Keshav Bhajanka:** You see the working capital cycle in particleboard or MDF is far lesser than that in the case of plywood or laminate, plywood and laminate have a very high turnover to fixed asset ratio, but are working capital intensive but as MDF and particleboard are the opposite. They have a very high fixed asset to turnover ratio, but thereby working capital like, so the working capital cycle you are seeing now is sustainable and as the contribution of MDF and particleboard to an overall turnover increases I think the cycle shall further reduce.
- Ashish Kumar:** So lets say in next 12-18 months as your capacity we can see days which are better than what we saw in the up cycle which was 60-62 days is that?
- Keshav Bhajanka:** Definitely.
- Ashish Kumar:** Okay congratulations and wish you all the best for the future.
- Moderator:** Thank you. Ladies and gentlemen that was the last questions, I would now like to hand the conference over to the management for closing comments.
- Sajjan Bhajanka:** Thank you very much. We have tried our best to honestly answer all your queries and about the numbers and these things if you have any further query you can always ask Abhishek Rathi or Mr. Julasaria they will assist you and we shall try our best to improve the working of the company and take it further to newer height. So thank you very much for participating today and sparing your valuable time.



Century Plyboards India Limited
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Moderator: Thank you. On behalf of SBICAP Securities Limited, we conclude today's conference. Thank you for joining. You may disconnect your lines.