



“Century Plyboards India Limited
Q2 FY2022 Earnings Conference Call”

November 03, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Century Plyboards India Limited hosted by InCred Equities. 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 for 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. Rahul Agarwal from InCred Equities. Thank you and over to you, Sir!

Rahul Agarwal: Thank you, Steven. Good afternoon ladies and gentlemen. We welcome you all to the second quarter fiscal 2022 earnings call of Century Plyboards India Limited. We have with us the senior management of the company led by Mr. Sajjan Bhajanka, Chairman, Mr. Sanjay Agarwal, Managing Director and CEO, Mr. Keshav Bhajanka, Executive Director, Ms. Nikita Bansal, Executive Director, and Mr. Arun Kumar Julasaria, Chief Financial Officer and Mr. Nehal Shah, CSO and Head Investor Relations. We thank the management for giving us the opportunity to host this call. I now hand over the call to the management team for their initial remarks post which will get into the Q&A session. Over to you, Sir!

Arun Julasaria: Ladies and gentlemen, this is Arun Julasaria, CFO of the company. I welcome you on behalf of CenturyPly. First of all I like to mention customary disclaimer this conference call is just to discuss the company’s historical numbers and future outlook and in no way this should be construed an invitation to invest in the country. Results for t he quarter along with the detailed analysis has already mailed to you, and is also hosted on the stock exchange and company websites.

I am just taking you through the macros we had the best ever quarter in terms of topline and margins. All our product segments, panels division did significantly well. Our topline Y-o-Y for current quarter has grown up by 55% to 808.29 Crores against 519.82 Crores.

EBITDA margin was 20.7% amounting to 167.56 Crores against 87.9 Crores last year. Profit after tax is at 103.08 Crores against 51.44 Crores. Our balance sheet networkh is about 1377.79 Crores and all the return ratios and working capital cycle are highly favorable. We continue to look at the future with optimism and better performance every quarter, the best ever results would be possible because of vision of our Chairman. Our Chairman, Sajjan Bhajanka is also in the call and he will share his vision with all of you. My new colleague, Mr. Nehal Shah who has been ex-ICICI Securities, he will now look after investor relations is also in the call and after Chairman’s speech, he will share the roadmap of the company for future post that we will open the forum for discussion. Thank you.



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Sajjan Bhajanka:

Dear, friends and all the investors, all with well wishers, all the participants, I wish you an advance very, very happy Deepavali and I am really delighted to share all time best results of the company with you. As already explained by Mr. Julasaria all the numbers, they much better and particularly in this testing times, we are still recovering from the second wave of COVID, so the things are very well and we foresee honestly a much brighter future, so not going in details in numbers, I will come to our broader vision with you and what is our feel of scenario in Plyboards and other panel industries.

In Century Plyboards, we are consistently augmenting our capacity and we are working our best to debottleneck all the existing plants so almost in comparison to last years, we have increased operating capacity to almost 50%, so now we are operating at almost the full capacity, which one are declared full capacity whereas we have 70% earlier and with the addition of a lot of new sectors and the particle board and in all the space we are operating at more than 100% Crores, MDF particleboard our capacity was 180 kilometer per day, so now we are operating at 300 kilometer per day by modifying the systems.

Similarly, in all the plywood factories we have introduced new equipments, some automation, so with that we are able to increase the capacity and there are many new initiatives in the company like you are aware that we have employed for supply chain and other efficiencies similarly BCG is there so like BCG and they are helping us in fine tuning our processes and wherever we have the chance to augment our popularity, connectivity, so we are getting sufficient help from them and we are also operating at more than 100% capacity and most of the centers or particularly the products there any added products we are encouraging and our key laminated products were augmented to a big scale.

We are contemplating to establish one of the largest Ply Factory in the country in Punjab. We have a license for that and one of the largest license in the country and I am very much optimist about the future and why I am so optimist, we share some background of that with you, hence you all are aware that with the introduction of particle board and MDF in European market, America, so the plywood share was substantially declined by the time when 100% panel was from plywood segment, then with the introduction of MDF and particleboard, plywood share was reduced to 25% in total packing products, but whether the humidity and the local situations in America and Europe are quite different than India.

So, if India, we can take any influence it could be from China and in China last five six years, the plywood growth was very healthy, plywood has grown at the rate of almost about 259% in five years and now China's utilized capacity is more than 200 million cubic meters per annum wherein our capacity or our product production in India only 10 million cubic meters and similarly particle board also China's production is around 35 million cubic meters, MDF



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channel production is around 55 million cubic meter whereas our production is around 1.52 million cubic meters, so whatever today China does, I foresee that in the next 10 years and by the time we shall surpass the population of China and by that time our middle income group would expand substantially so with that housing already passing through a boom phase and in another 10 years housing activities will multiply many in the country and so panel products would be very much in demand.

So, even if we reach 25% what the present China is, so against 200 million cubic meter even if we produce 25% of that after 10 years from now it would be 50 million cubic meters, so from 10 million cubic meter to 50 million cubic meter in the next ten years you can imagine I am sure it will by a far surpass that quantity 50 million cubic meter, but even at that there is very, very bright scope for expansion of the Plyboards and particularly Century Plyboards we are very bullish. We do not foresee that plywood would either reduce our pave the way for MDF and particleboard, yes, MDF and particleboard would grow but plywood would continue to lead all the panel products and similarly MDF and particleboard also we should reach minimum 10 million cubic meter capacity from 1.5 to 2 million now in another five to six years.

With this we are much optimistic, we are foreseeing a great future for Indian panel industry and more particularly for Century Plyboards being the leader and being present at many locations in the country, south, west, north, east and in certain areas we have multiple units, so we are fully utilizing the opportunities and we are sure that we shall give good appreciation to all our investors and we are a very, very conscious of skill upgradations of all the people to retain talent we have created center of excellence in the company under the guidance of BCG, Boston Consulting Group and we have a division container freight distribution that now we are hiving off to a subsidiary because little unrelated business and also there are opportunities but it is not our core sector, so maybe we shall align with some recommended people or some leading player so for that we have to facilitate that facility we are hiving off our CFS division into a subsidiary.

So friends almost I have shared my vision and if you have any particular query may be in the course of discussion I shall attend to it. Thank you and I hand over, Nehal Shah. Nehal, as Mr. Julasaria has already explained he had joined us recently and he is the Chief Strategy Office and at the same time he is in charge of the investor relationship. Thank you. Nehal you can take over.

Nehal Shah:

Thank you so much. Hello friends, I would first like to wish you all in advance and very Happy Deepavali and a Happy New Year. Now, as discussed in the last call we have come out with a five-year roadmap wherein we expect the revenues to cross Rs.5000 Crores by



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FY2026 and now this implies 19% revenue CAGR over the next five years that is from FY2021 to FY2026. The roadmap slides are incorporated in the corporate presentation, which we have just released today.

Now within our portfolio we expect our MDF segment to grow the fastest, which is an excess of 25% over the next five years. Why we expect the growth in plywood laminate and particleboard be in teens over the next five years. Rs.5000 Crores revenue as auctioned by FY2026 would be driven by following: number one, double digit growth CAGR by the wood panel industry over the next five years, which would be basically driven by low base of last five years where the industry growth remains marginal, expected higher growth in occupation of premises driven by liquidation or existing inventories in the residential various state sector and higher growth in excess of 15% in MDF and particleboard categories.

Two, aggressive capex initiatives to be largely met through internal accruals, we strongly believe that large addressable market plus CPIL robust operating cash flow would represent a strong reinvestment opportunity for Century. We are likely to initiate a very aggressive capex of 1230 Crores over the next five years as compared to Rs.1140 Crores of gross block created over the past 35 years since inception. This would be a mix of Brownfield and Greenfield expansion across product segments over the next five years. The likely capex break up would be as follows, MDF 850 Crores, plywood 160 Crores, laminates 150 Crores and particleboard 70 Crores.

Three, the market share gains in plywood segment would be driven by the recent out-of-box initiatives like ILP, SFA, hiring of the active consultants, BCG, for improving efficiencies, etc., aggressive ANP spends, which is likely to sustain if not accelerated, sustained working capital and input cost pressure faced by the unorganized and the regional players would also help us gain market share gains.

Four the market your games in the more organized segment like MDF and laminate segments this would be again driven by recent out-of-box initiatives and creation of additional capacities over the next few years. All in all we expect ROCE to stay in higher over the next five years driven by sustained working capital discipline, reinvesting capital and higher ROCE generating segments and sustenance lean balance sheet despite aggressive capex over the next five years. I would now open the floor for Q&A. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Praveen Sahay from Edelweiss Financial. Please go ahead.



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Praveen Sahay: Thank you for taking my question and thank you so much for good presentation for saving the presentation and having five-year plan, so the first question on five-year plan only that gross block as you had said that 1230 Crores odd for the next five years and largely from the MDF. As I understand that MDF has a low ROCE as compared of other businesses, so do you believe that ROCE should sustain at the higher level or reduce with the larger MDF capex?

Nehal Shah: Nehal, here. On the MDF side in fact if you look at the ROCE, the ROCEs are much stronger at this point in time, the ROCEs are closer to 30% to 35% at this point and with every price hike this is getting more and more sustainable, having said that with the likely capacity addition over the next couple of years, we will have to wait and see how the ROCE will get impacted, but we are fairly certain of having at least 20% to 25% ROCEs over the longer term, so that is what we believe.

Praveen Sahay: Thank you and the next question is related to the quarter performance especially from the plywood division, so there also if I look at especially on the realization side as back essentially or even the higher than that of pre-COVID level, so do you believe from here is a further room for improvement in the realization of the plywood division?

Nikita Bansal: Actually, in the previous calls also we said that the markets where we can actually grow lies at the range of Rs.80 to Rs.100 and we have brought Sainik seven months to grow as a product, so moving forward and since the last two to three years our concentration has been in Sainik and because of that our P&L is growing much, much faster in the Sainik category as compared to the premium category. Having said that premium category is also growing, but growth in Sainik has to be larger because the market space is more because of this going forward also realization will be average realization in panels will be lower because Sainik sells at a lower value, so I do not think I can say that you know we will maintain this, but I think because of our strategy itself there might be a bit of degrowth but overall there will be a growth in revenue, there will be a growth PAT and there will be a growth.

Keshav Bhajanka: While Sainik might have a lower realization, it also has a lower cost, we see no meaningful impact in margins, we are likely to sustain margin, however, having said that overall average realization after the price hike, etc., etc., because of that contributions of Sainik may now go up substantially going forward.

Praveen Sahay: Got it. Secondly on the MDF that higher realization for the couple of a quarter like the first quarter then the second quarter we had already been seen, so can you also, because also Nehal has said that these numbers to sustain and the ROCE profile because of that will also



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sustain going forward because lot of a fluctuation we had seen in the past especially in the MDF realization so how you are seeing this realization actually to sustain at this level?

Sanjay Agarwal:

This is Sanjay. MDF is a product which is actually growing in the country now and as and when we have seen in the past, as and when there is a new capacity comes into the market and as the overall market is not too large even a small capacity of 600, 800 cubic meters per day makes a small change in the market prices, in the last two to three months we have see that the cost of raw material especially melamine and urea and all these things have gone up and we have passed on the costs, but then it takes there is some lag, we will see that we have always tried by increasing the prices we have tried to sustain our EBITDA, which we had been successful look at a longer perspective, in some small periods of time you can see that yes, it will suffer but we have always come back, right now the EBITDA is I think very nice, we have taken the price rise in the last quarter, we have taken the price rise in Q1 and again we will be taking some in the Q3 also, so I do not see any problem or any real down slide, this will happen as and when a new capacity comes for some time all should be prepared.

Praveen Sahay:

Any impact on the import because import has also reduced significantly, so will that come back, is there any thought process?

Sanjay Agarwal:

Import of MDF might come back maybe in a year, maybe in two years time, but the industry is also really becoming very efficient and capable, I think by the time the import starts being more capable because our capacities will be higher and you know all these things one more thing actually, the plantation which was actually slowing down a little bit in the whole country that plantation is also now everywhere across the country we will start planting a lot of trees, farmers now see that yes, there is a possibility of getting a good price, so in coming few years time the total coverage under plantation in India will grow multifold when people like us are doing whatever possible and that plantation will actually bring in more capability into India to fight imports.

Praveen Sahay:

Thank you for taking my question and happy Deepavali to entire team as well as Century Plywoods.

Moderator:

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

Sneha Talreja:

Good afternoon, Sir and thanks a lot for the opportunity and congratulations in great set of numbers. Just two questions from my end, firstly if we look at volume growth, it has been phenomenal especially for the last two quarters, what are the attributes that you would like to give it to one thing could be there is a significant much front from unorganized to organized



as the demand pick up or would you actually give it to some amount pent-up demand also in fiscal or do you think that the volume growth is more sustainable?

Sajjan Bhajanka:

Like was this organized and unorganized, pre-GST, post-GST, so earlier in the industry while giving better valuation GST was prematurely discounted because ground reality did not change although GST was introduced, but even like removal and other things were continue, but during the last three, four years things have changed substantially with the introduction of the e-way bill with the forward integration, with the backward integration, which have really changed, so now people we are compared to comply with GST nobody wants to buy they have GST, nobody wants to sell without GST, so as I shared earlier out of the 3300 units in private industry earlier 2500 lakhs totally exempt, they are not paying any tax, 700 were partially paying tax, only 100 were fully taxable, so now the situation is totally opposite, all 3300 units, they are tax paying, there is no exemption, so with that time or with the GST or the taxes reduced from 30% plus to 18% and from the old line industry it has increased from zero percent to almost 10% that 30% gap has narrowed down to less than 10%, so this is a positive factor in our favor and obviously the migration from unorganized to organized, this is one part and obviously the people their paying capacity increasing they want to go for quality product so our ViroKill or Firewall, so they are catching attention of the people, now Sanjay or Nikita you can take up.

Nikita Bansal:

Yes, I will just add that seeing that we are doing in the last one year, one of our success has been PVC advertisement of ViroKill as well as the Firewall and now we are also advertising on Sainik 710 on regional news and Hindi News. I think that has been one of the factor of success other than this we are continuously changing our go to market that we keep talking about we are using various consultants to help us look at various ways we can increase sales because of those endeavors we have seen the results in this and also there has been a pent-up demand in Q2 and definitely we have seen a pent-up demand, which is created because of the Q1 COVID second wave, but there is growth because real estate is reviving again, so going forward we see that these growth patterns are to sustain, and it is an opportunity for a company like us to grab it and increase our market share.

Sneha Talreja:

Nikita, that was helpful, can you also give some breakup for Sainik itself that you know how was the share moved up because you have been saying that the segment is driving up the growth just want to understand where was it last year versus where is it now?

Nikita Bansal:

If I see last year it was around 28% to 29% Sainik sale, the last quarter it has been about 33% in the Sainik sale, but we need realize this in terms of dilute and Sainik sales at a lower value.

Sneha Talreja:

Right, in volume terms it would have been even much higher?



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- Nikita Bansal:** Yes, it is higher.
- Sneha Talreja:** Got it. My second question was related to margins, this quarter we have seen phenomenal margins across the segments whether is the plywood, laminate is there any one off element with regards to lower cost of inventory or you think that precaution and cost saving measures that you have taken up in BCG and all is leading to such kind of margin or is there one off element?
- Nikita Bansal:** I feel it is a threefold answers as per me and I Keshav can add after me. I think one definitely BCG has surely lowered costs and that has helped us primarily in MDF to improve our margins there but also in case of say laminates or plywood, we were manufacturing throughout Q1 because of that we were manufacturing at a cost, which was much lower and had been a raw material increase in Q2 and we took a price increase also in Q2 because of which I think we were able to give a better margin, I am not sure that this is a sustainable margin, but we will like say in case of plywood we would likely always there we will be between 13% and 15% that is a sustainable margin but I do not think we are going to grow from what we are showing today.
- Keshav Bhajanka:** In the case of laminates, I like to add, yes, raw material did favour us substantially because of the decision to continue production during of lockdown period of Q1, going forward as like Nikita said plywood laminates we have been targeting sustainable EBITDA margins of 15% to 17% and I think we will definitely be able to have a long way of life.
- Sneha Talreja:** Got that, Keshav, in that case we able to pass on the entire cost increase, which has been taken in Q2, I mean Q1 definitely we had some marked inventory which we will see in Q2, but beyond with everything I mean the raw material cost increase has been passed on or do we see some marginal pressure in the coming quarters because of some delay passing on the cost, I mean rise our pricing?
- Keshav Bhajanka:** The situation with regard to raw material we were aware the prices of melamine which is changing on a price lead basis, yes, we have been able to pass on the cost increase up till a point in time and we are looking for further cost increase in the course of this quarter, so I think maybe in the course of next couple of months, we will definitely we were able to pass on the entire raw material cost increase.
- Sneha Talreja:** Thanks a lot and congratulations for the entire team.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.



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Achal Lohade: Thank you for the opportunity, Sir and congratulations for the fabulous performance. Now, my first question pertains to plywood business, if I look at our first half volume and compare that with FY2019 rather FY2020, I see it is fairly stable you know on a two years CAGR, so what I wanted to check is in terms of volumes, have you seen a kind of volumes what you have delivered in the second quarter sustaining going forward in this quarter, so I try to imply is there a substantial element of pent up which paid out in this quarter and which you think could normalize and we could look at a more normal things of numbers to it?

Nikita Bansal: Yes, right now in a very growing markets, definitely there was a factor of, so we grew some Q4 to Q2 at about 10% if you compare to current quarter it gives us 10% definitely it is not possible to sustain a 10% growth quarter-on-quarter, but there will be growth from Q2 numbers as well going forward, so I do not think the reason for that is pent up demand, it is just the efforts that we are putting that is resulting here.

Achal Lohade: With respect to the backward integration if you could just highlight what part is coming in when and which segment?

Sanjay Agarwal: Sorry, I could not understand, can you repeat?

Achal Lohade: In terms of the capacity addition, which product capacity is that you added when for laminate, plywood?

Nikita Bansal: Nehal will explain this.

Nehal Shah: As we said the capex and the expansion would be on these lines, in the plywood segment as the Chairman already indicated we will be pushing forward for a large plywood capacity in Hoshiarpur so that is one in plywood besides that we will also see capacity increasing because of debottlenecking across our plants which are six plants so this is the respect of Ply. Secondly with respect to laminates we have already added one line last year, which will help us grow in this year and we are also planning to come out with couple of more lines going forward so this will arrest the growth factor over the next two to three years and that largely be expected to be a Greenfield one and within MDF as you are aware the Hoshiarpur Brownfield expansion is going to come through by July 2022 and the South India capex, as we said there has been a delay of six months and we expected to commission in H2 of FY2024.

Achal Lohade: What about particleboard?

Nehal Shah: Particleboard, again we are planning for an expansion, but it is too early days to discuss at this in time.



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Keshav Bhajanka: I would like to add one point, in particleboard substantial efforts have been taken to debottleneck and augment our current production capacity and that will start yielding dividends from the current quarter onwards.

Achal Lohade: Understood.

Moderator: Thank you. The next question is from the line of Venkat Samala from Tata AMC. Please go ahead.

Venkat Samala: Thanks a lot for the opportunity. Sir, my first question is just an extension to a previous participants question, so if you could give some colour in terms of you know is on the quantum in the next one to two years what capacity in this segment will be adding? In terms of turnover or capacity terms also that we will do.

Keshav Bhajanka: So, you want to know the capacity that could be added segment wise?

Venkat Samala: Yes, segment wise in the next one two years?

Nehal Shah: Nehal, here. So, as we discussed the MDF capacity expansion will come into play in July 2022 which will add 12200 CBM to the existing 198000 CMB, in FY2023, we are looking at getting the Mirzapur plywood plant on steam, so these are two facilities, which are likely to come on stream by FY2023.

Venkat Samala: Sure and what will be the capacity for the Hoshiarpur plywood expansion?

Nehal Shah: 1000 square meter per day and we are expected it to take it to 1 lakhs square meter per day.

Venkat Samala: Sorry, your voice is audible, I could not get that.

Nehal Shah: Initially, it will be 50000 square meter per day and within a year this is augmented to 100000 area square meter per day.

Venkat Samala: That would be almost 20% addition to our existing capacity, understood and which part of FY2023, will we expecting this to come on stream?

Keshav Bhajanka: H2 of FY2023.

Venkat Samala: Sure, and from the current capacity with whatever capacity improvement additions that we are planning what is the max turnover that we can expect?



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- Nehal Shah:** We are planning to add another 60000 cubic meters from the existing plants over the next couple of years to debottlenecking, so that should add another 250 Crores to 300 Crores in the kitty.
- Venkat Samala:** My next question is if I just look at the five year roadmap we are planning to spend about 1200 Crores odd, right and then the incremental revenue if I just look at the current quarterly run rate if I see it for the annual run rate could be around 3200, right, so 1200 Crores capex spend will lead to another 1800 Crores odd vis-à-vis sort of different 5000 minus 3200, am I looking at it in the right way?
- Nehal Shah:** It is about 1.5.
- Keshav Bhajanka:** Those 5000 Crores is not necessarily 100% capacity utilization. We have done a saving and based on that, so if you look at 100% capacity utilization the figure is actually be even higher.
- Venkat Samala:** So the 1200 Crores would be the effective asset turn for this?
- Keshav Bhajanka:** The asset turns would definitely be in excess of 15 times because the capex is in between product, as you know in plywood and laminates the plastic turnover is normally close to 4 times whereas in MDF we should be getting an asset turnover 1.5 times and similar or higher in particleboard.
- Venkat Samala:** Sure, thanks a lot and wish the entire Century team a very happy Deepavali.
- Moderator:** Thank you. The next question is from the line of Priyam Khimawat from Infinity Alternatives. Please go ahead.
- Priyam Khimawat:** Congratulations for a great set of results. First in terms of MDF, I wanted understand what is the current OEM and retail mix in the north plant?
- Sanjay Agarwal:** Please repeat the question?
- Priyam Khimawat:** What is the current OEM and retail mix?
- Sanjay Agarwal:** See as far as our particleboard and MDF is concerned, in particleboard most of it is going to OEMs and in MDF whether it goes directly to OEM or it goes retailers, but more than 75% of the orders are supplied by us through OEM. This is the strategy we have adopt say about one to two years time because OEMs are our main and final consumer, so we must have an direct access to them, so we are reaching out that you can say our planning is that more than



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70% could go directly, and trade yes, we go through some local dealer or a retailer that is there.

Priyam Khimawat: On this quarter if I look at our MDF capacity utilization was around 42000 seasonal cumulatively, so it appears to be on the lower side of 85% capacity realization so this has taken shutdown so any plans on continuing of that?

Keshav Bhajanka: You see, MDF is always seasonal, during the monsoon season, there is a slightly subdued demand, so you will see demand of the total production capacity utilization, etc., is higher during Q3 and Q4.

Priyam Khimawat: Can you help us with the breakup of 50 Crores capex which you are planning to do, is it like 300 Crores for the Hoshiarpur expansion and 550 for the remaining, is that understanding correct?

Keshav Bhajanka: No, it is 250 Crores for the Hoshiarpur expansion and 600 Crores for the site expansion which currently is a ballpark figure that we have worked out on, the exact number might be slightly higher or slightly lower.

Priyam Khimawat: Thanks a lot. That is all from side.

Moderator: Thank you. The next question is from the line of Udit from Yes Securities. Please go ahead.

Udit: Thank you for taking up my question and congratulations for good set of numbers. Sir, on our products in plywood so can we just share that how is the revenue mix of our plywood in MDF and laminates of the 5000 Crores that we were expecting, what kind of split do we see like plywood to be 55%? Thanks.

Nehal Shah: So, if you look at the next five year projection what we are doing in terms of a roadmap, we expect MDF to grow substantially higher which I said in excess of 25% over the next five years except for that the other parts we expect them to grow in teens, so the plywood percentage obviously will come down to some degree while MDF proportion will increase, I think that is the only thing which will change and the others largely should remain constant.

Udit: Just last one point on the MDF, so do we see this market to remain organized, or we are seeing some cheaper kind of except for imports, cheaper quality by some Chinese manufacturing or something happening on the ground or this can be fairly largely only the organized play come in the case?

Sanjay Agarwal: Sorry, you will have to repeat the quarter, please.



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Udit: In MDF currently that is controlled by it is largely an organized play, so do we see some kind of cheaper material coming in for MDF as well going forward?

Sanjay Agarwal: I think I had answered this question a little while back that the imports yes it is a reality, but I do not see any reason of imports in the next one to two years time because of the China's own consumption number one, number two, I do not see a reason because of the logistic costs being very high and in the meantime, internally our capacities are going larger and larger and we are going to become more and more efficient and the fourth point is because of the internal crop or plantation I expect the availability of timber will now become bigger and bigger in times to come and that will keep that our cost of timber does not go up, so I do not see a big threat, but yes, from time to time the new capacity within the country or even imports from other countries will effect for some time. Earlier I do not think China was a big threat to India. Chinese material was not coming much to India, most of the material was coming from Asian countries Vietnam or Malaysia, those were the countries, but I do not see near terms about a year or two I do not see any problem.

Sajjan Bhajanka: But now there is substantial change in the price per ton, so all the already the Chinese, Vietnamese and other products their cost and their selling price will increase and now India is very much competitive, now during the last quarter had substantially increased their export and similarly Rushil also is contemplating to export in big numbers so as and when they commission they will increase their production, they will also resort to export so now earlier even with the antidumping and other things we are less competitive to their imports, but now it is not the case and particularly the North Indian market which is landlocked so the import would be very, very costly, so it can hardly compete with the domestic production, so substantially import in the country is not feasible or not visible in the near future.

Udit: Thank you, Sir for this elaborate answer and just one clarification, while talking about plywood earlier I guess a speaker mentioned about the sustainable EBITDA margin of 15% to 17% which is in the plywood division, is that understanding correct?

Nikita Bansal: No, that is the laminate division of 15% to 17%, for plywood it is between 13% and 15%.

Udit: Thank you for the clarification.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Equities. Please go ahead.

Rahul Agarwal: Thanks and congratulations for a great set of number. I had three questions, firstly on the five year plan you obviously mentioned in terms of what capex you want to do and how would



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that basically help in getting more revenues, I am sure that scale there is a lot of operating leverage benefit, you mentioned that laminates and plywood have a certain range of long term sustainable margins, but overall at a company level, would you guide for any margin target or the EBITDA targets you have five years out you know broadly speaking with that scale I am pretty sure company would make much more money, right?

Keshav Bhajanka: You see our objective from day one has always been to deliver better and better at all and to still up, however, having said that we have seen a difficult time we have passed through in the last year or year-an-a-half, so I would say that we are always targeted sustainable EBITDA margins of 13% to 15% in Ply, 15% to 17% in laminates, 20% plus in particleboard and 25% plus MDF, and going forward we will try to maintain similar EBITDA margin that is the target, but of course all our effort is always to improve our margins as and when positive.

Rahul Agarwal: Thanks for that and secondly on this laminate realization, there is a very sharp jump up of 11% Q-on-Q, is that sustainable and that is obviously primarily led by price hikes, but is that the number to look at going forward?

Keshav Bhajanka: No, there was a change in product mix that took place between export and domestic between Q1 and Q2. The laminates realization that we are seeing now we should look at similar realization that is a little higher going forward and this sort of a jump will not be there.

Rahul Agarwal: Got it and what was the export domestic mix for the quarter?

Keshav Bhajanka: The exact numbers Nehal and team can back to later. I do not have the number readily.

Rahul Agarwal: Sure, and lastly on this particleboard capacity utilization you alluded to some debottlenecking happening and obviously the production levels are looking much higher than what capacity you have, could you elaborate a bit on this essentially what kind of production we should look for, for particleboard this year and what capacity increase actually happened? That is my last question. Thank you.

Keshav Bhajanka: We have increased our production capacity from 180 cubic meters per day to 250 cubic meters per day and I think going forward we will be able to maintain 250 cubic meters per day.

Sajjan Bhajanka: Actually, we have installed one more dryer, so earlier what we are seeing we had enough pressing capacity but our drying capacity was less, so we installed one more dryer, so now in the same place where earlier we are imagining that our capacity 180 cubic meter now like we are going for that e large size only to we are avoiding so much size, small thickness, so that way where we can get better productivity in manufacturing 9 mm or 18 mm or productivity



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is better in 18 mm so that we are doing, mix and match and other things and with another dryer and another builder, now most optimum capacity we have to use, so actually last month almost we have manufactured to the tune of 300 cubic meters because there is one day we shut down every week so for 25 days we have achieved 6800 plus.

Rahul Agarwal: Got it, thank you so much for answering my questions. Steven you can continue with question. Thank you.

Moderator: Thank you. The next question is from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh Tatiya: Thank you for the opportunity. My question is the industry has given the petition for countervailing duty for MDF, so I just wanted to know is there any update on that?

Sajjan Bhajanka: So far the industry is not successful in getting any of this products or countervailing duty or anything so far all the applications have been turned down.

Rupesh Tatiya: Applications is rejected at this time?

Sajjan Bhajanka: Yes.

Rupesh Tatiya: Then Sir, you said that whenever new MDF capacity comes, the realizations build up is for few months so I just wanted to know from you that what are the capacity is coming online over next two years and particularly there are like two unlisted players, is there anything about their capacity expansion plans that will be very helpful, again this is an MDF, Balaji and Shirdi in particularly if you know what is their expansion plan, if you can help us with that?

Sanjay Agarwal: Yes, so what we hear from public domain, the capacity addition probably is likely to be driven by couple of companies, one is Greenply, which is putting up a plant in Western India that is likely to come in next one-and-a-half years and Action also they are hearing they are likely to gearing up for another capacity expansion also through a Greenfield one so that probably might come in say FY2022 or FY2024, so these are the ones where we are aware that there is likely to be capacity expansion in MDF besides the one that we are putting.

Rupesh Tatiya: Action is in north or south?

Rahul Agarwal: North.

Rupesh Tatiya: Thank you, so much.



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- Moderator:** Thank you. The next question is from the line of Deval Shah from Phillip Capital. Please go ahead.
- Deval Shah:** Good afternoon, Sir and thanks for the opportunity. Sir, my question is since we are running two capacity so from now let us say until next half of FY2023, what is the driver of a growth?
- Sanjay Agarwal:** As far as plywood is concerned, we are already augmenting our capacities within every plant wherever there is a debottlenecking possible that is happening like our Chennai plant which was producing 30000 per day now it is producing 15000 and in the next three months we should be reaching about 50000 per day, so similar small debottlenecking are happening and I think our Punjab plant or other capacities will be on within the next one year time or so, and then you will see during the period you will see that the Q2 and Q3, so there are times this October and November kind of months when actually will go down a little bit from stock levels will increase within the company and it helps out to take care in the future, so I do not see immediately any problem, but yes, if we do not expand our new plant capacity, yes, that would have been a problem, but this is only already been taken the life which are in our hand and I believe that yes, our capacity will be on and I think, Sajjan Bhajanka can comment more on this.
- Sajjan Bhajanka:** I agree with Sanjay because you know the capacities or anything are meaningless unless there is demand, so the main thing in our favor is a robust demand and particularly our marketing team is very, very active and they are very innovative so whatever marketing strategy we are adopting advertising and other things all are helping us and all are successful, so that is the thing in our advantage so maybe we will continue in this thing better productivity and good marketing, so combined these three things will give us boost.
- Deval Shah:** Sir, when you are guiding for these 1250 Crores kind of a capex so I wanted to know is current real estate cycle is something different, which you are looking at comfortable smart cycle.
- Sajjan Bhajanka:** You know the real estate prices are not that much material to us because the maximum expansion or the growth will come not in the time real estate, it would come in the peripheries, like big cities in certain suburbs so wherever the capacity comes, wherever the house are delivered and they will need furnishing so our role comes after building is constructed, handed over, so earlier lot of inventory was there, but last year and half or during the COVID period a lot of inventory had been diluted and once it goes to the real year then our role comes, so that is where we see very good demand and very encouraging situation?
- Nehal Shah:** Just to add to what Chairman, Sir said, if you look at the last years progress report which got released few days back, you look at the months inventory of residential real estate and major



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cities they have started to decline and the decline has been pretty big, so the decline is 15% in Q-o-Q and 39% Y-o-Y to 40 months from 48 months in the last quarter so that clearly says that the occupation of premises are in the surge and clearly panels thrive on the increasing rate of occupation of premises.

Deval Shah:

I got it, last year this 1250 Crores, how we are looking to fund it?

Nehal Shah:

That is largely through internal accruals, if you look at the cash flow generation what we had last year we had almost like 360 Crores, so over the next five years if you do the math we do not believe that we would be needed to raise even a single rupee of that if you adjust for working capital requirements I think we should be good enough to spend the incremental capex as well as the working capital through our internal accruals.

Deval Shah:

That is good. Thank you so much.

Moderator:

Thank you. The next question is from the line of Sonaal Kohli from Bowhead. Please go ahead.

Sonaal Kohli:

Congratulations on your results. Sir, what I wanted to know was is there any reason for you to expect that going forward the margins in plywood would be lower than in the recent period and if so what would be this on an account of?

Nikita Bansal:

I think I answered this previously that we are looking at 13% to 15% EBITDA margins to be maintained going forward.

Sonaal Kohli:

That is what is the starting point to my question, what is the reasons for which you expect your margins to lower and what is currently?

Keshav Bhajanka:

You see, we have seen one quarter of higher margin, however, if you look at annualized basis, the first quarter was substantially lower that would being the largest sector and there have been fluctuations, we have seen that our target margin between 13% and 15% EBITDA is something that we can sustain actually, so that we are giving guidance you want to make sure that we deliver on the commitment hence the commitment that we looking at is 13% to 15% EBITDA margin sustainable, over the course of some quarters would it be higher, definitely it can.

Sonaal Kohli:

Sir, was there any one off because you know Q1 is obviously not a normal quarter you know for you or for anybody else, so that cannot be the benchmark for any analysis what is one off in Q1 or if they evaluated cycle why cannot these margins be maintained or better?



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- Keshav Bhajanka:** No, definitely there was, likely I had mentioned already in Q1 we took the decision to continue production at one of the most challenging times possible, having said that in Q1 that resulted in much lower cost raw material being consumed and once the price increases were being passed on in Q2 we got the benefit of the same.
- Sonaal Kohli:** Sir, is it fair to expect that in Q3 and Q4 your margins would be lower than what currently in spite of the marketing?
- Keshav Bhajanka:** It is 13% to 15%, definitely we are looking at 13% to 15% and that is what we are targeting, although if performance on the phase that continues as it is now it might be slightly higher.
- Sonaal Kohli:** Understood, this is more coming from a longer term experience, it is not based on any other assessment, but seeing your own long term trajectory so that the cycle is different than what is today, there is no reason specific for you to expect margins to collapse or fall?
- Keshav Bhajanka:** You are correct.
- Sonaal Kohli:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Aasim Bharde from Dam Capital Advisors. Please go ahead.
- Aasim Bharde:** Good evening everyone, Sir. just wanted to understand how product pricing would move in an environment of falling input prices, will we and the rest of the industry cut pricing one to one as RM prices fall or would we be able to hold on to some of the hikes we have taken?
- Sajjan Bhajanka:** Generally, we could maintain with our price level once it has been increased so generally it is sustained at that level. Very seldom we have to reduce the price. I do not remember we have done that maybe only time I remember when the GST was reduced from 28% to 18% that time we have passed on the benefit and it was strategically required also but otherwise we have seen because during the COVID the prices of raw material were at the all time low, but during that time we have not reduced the price so during the third quarter last year for this thing to have a profit margins were due to that because of the raw material prices reduced that time and we have not reduced our sales price and generally we have not seen in the industry, it is one way traffic so hopefully if the prices of the raw material starts going down it will add to our profit.



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Aasim Bharde: Safe to assume that in the margin ranges that you are talking about 13% to 15% in Ply and 15% to 16% laminates you should perhaps fall more on the higher side of the range over the next five years that you are planning, right?

Keshav Bhajanka: That will always be our attempt.

Aasim Bharde: One clarification also on the capex numbers you mentioned in the opening remarks does that include the Punjab plywood and the Andhra MDF as well as the Brownfield MDF that they are doing in the north or are these fresh investments?

Sanjay Agarwal: All of those are included.

Aasim Bharde: Sure, thanks a lot, Sir and wish you all the best.

Moderator: Thank you. The next question is a followup from the line of Venkat Samala from Tata AMC. Please go ahead.

Venkat Samala: Thanks for the followup. This is a big picture question. I think it has already answered it as well, so if you look at last three to five years I understand that things have been very sluggish and things look very good now, but even if I look at the gross block as well you are looking to sort of double it in the next five years compared to what you have done in the last three decades or so, so apart from the positive real estate cycle that you spoken about anything which have given you that sort of confidence of comfort to double down on the capex and sustainable topline growth for the next four to five years?

Sajjan Bhajanka: Basically, the panel sector is largely dependent on the real estate, on the housing and we do not foresee any reason that housing momentum which has been picked up would die down in the near future rather it helps to surmount, like I foresee in the next five, six years I think our own availability of raw material or the finished product in the country may not be sufficient to meet our demand from the housing sector. So I foresee in the near future or five to ten years there would be very hefty growth of Indian panel industry. only this thing I am foreseeing the problem could be from raw material side maybe plantation would not be able to cope up with the demand of the plywood and particleboard industry because there are many things government policies, land availability, other things, people diverting from cash crop to agro, so these things are there, but I central government is aware they are trying their best to divert some land even 5% land is diverted from cash crop to plantation then it will take care of almost 10 times requirement from now, if 12% land is diverted that will solve the government's problem of surplus cash crop which is retained in the godowns, Government of India is not able to consume it if there is no export market to that so that way government



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little bit initiate and do some policy decisions so that can take the way, but China has been doing similarly in 1993 or 1994 I remember our initial range and at that time when the housing boom started in China around that period all over the world all the panel product, steel everything was moving towards China, in India at that time price increased in India by more than 25% to 30% within few months due to the Chinese demand and I am foreseeing that to scenario for India in next five to ten years.

Venkat Samala: Right, if I just look at the company's historical numbers then you seem to be seeing conditions for growth for the company in place the kind of which we have seen in the early last decades, right is that the right way to look at it?

Sajjan Bhajanka: Yes, I feel that at the right time we are at the right place so you have many opportunities in front of us.

Venkat Samala: Understood and one last question on the MDF margin side, do you think the current margins at 34% to 35% that is sustainable in the near term?

Arun Julasaria: Because we can benchmark the prices either with the imported price which is due to container nonavailability, due to the disruption in the international movement of the commodities and cargo, at the moment it is not at all competitive, the import in India has drastically reduced, then the second thing which will govern the Indian demand and supply. If suppose your demand is not picking up and capacity augmented in the country so there could be some pressures on the prices, but at the moment and the trajectory we foresee for housing growth and other things I do not foresee there could be a temporary mismatch, suppose two plants commissioned together and overnight demand that much demand cannot be created in the market so there could be two, three, four months gap and at that time there could be some pressure on the prices, but this has gone hand to hand.

Venkat Samala: No, Sir I mean most of the plants that hear about would be getting commissioned in FY2023 right, near term in H2 FY2022 do you think the current 34% to 35% is sustainable?

Sajjan Bhajanka: There is another cushion also that is if India is competitive in exporting the MDF also so is there a surplus in the country export would come to the rescue so that way taking international market, Indian market and then buy and large Indian quality is very good it is appreciated in exports also there are no bad comments or remarks, so that way it is well accepted Indian quality so with that now it is not only on domestic market improves the markets where there are domestic market demand and supply it becomes larger, so where the only local thing cannot make a big change.



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- Venkat Samala:** Last question from my side, there was some news articles floating sometime back about a 1000 Crores odd investment for a plant in Andhra, so just wanted to understand if you could give more colour as if you can confirm if the quantum that is specified in these article is that correct?
- Keshav Bhajanka:** No, now we are looking at the first day of any capacity and the planning is always for the future so for the south we can do the expansion in three phases depending on how the demand and supply position looks like, so what you are referring to is all three phases put together which is any product report when you a future estimate then you get it and this includes all future as of now they are only looking at close to 600 Crores capex.
- Venkat Samala:** Thank answers. Thanks a lot and wish you all the best.
- Moderator:** Thank you. The next question is a followup from the line of Rahul Agarwal from InCred Equities. Please go ahead.
- Rahul Agarwal:** Thanks. Just one question on the cash flow for first half, it looks like the inventory was pretty high as of September end and hence the operating cash flow is pretty low any specific reason or any clarification would you like to give?
- Nehal Shah:** It is largely because of the inflationary environment which has led to the higher inventory and if you look at their working capital our working capital still remains very, very strict at 60 days it is only because of higher sales and the inflationary environment that the cash flow has got impacted and which is got impacted if you look at most of the company, it got impacted.
- Rahul Agarwal:** Got it, Stephen you can end the call, please.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Rahul Agarwal for closing comments. Over to you, Sir!
- Rahul Agarwal:** Thank you all participant for attending the call and we thank the management of Century Plyboard to give us this opportunity to host this call this quarter, happy Deepavali and a prosperous New Year ahead to everybody at Century Plywood and I will hand over to the management for their closing remarks, thank you.
- Arun Julasaria:** We thank all the participants and for organizing this conference and successfully. So we complement Rahul and team and his company. Wish all the participants are very, very Happy and Prosperous Deepavali. Thank you very much.



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Moderator: Thank you. Ladies and gentlemen, on behalf of InCred Equities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.