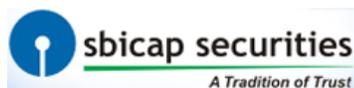




“Century Plyboards India Limited
Q1 FY2020 Earnings Conference Call”

August 14, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to the Century Plyboards Limited Q1 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. Ayush Bagla from SBICAP Securities. Thank you, and over to you, Sir!

Ayush Bagla: Thank you, Nirav. Good afternoon, everyone, and welcome to Q1 FY 2020 earnings conference call of Century Plyboards India Limited. I would like to thank the management for again giving SBICAP Securities the opportunity to host this call.

I have with me, Mr. Lakshminarayana Ganti, Head of Research at SBICAP Securities. From the CenturyPly management team, we have Mr. Sajjan Bhajanka, Chairman, Mr. Sanjay Agarwal, MD and CEO; Mr. Keshav Bhajanka; ED and Mr. Arun Julasaria, CFO.

We will begin the call with opening remarks from management, and then move to Q&A. Thank you.

Sanjay Agarwal: Good afternoon, friends. I am Sanjay Agarwal, Managing Director of the company. I have with me, Shri Sajjan Bhajanka, Chairman; Keshav Bhajanka, ED; and Mr. Arun Julasaria, CFO of the company, for the first quarter results call of CenturyPly.

We have performed very well in this quarter. Our revenues and margins have improved significantly, and this performance is shown in Q1 numbers. Though volumes did not grow much in plywood segment, margins have significantly improved. We are full faith in this segment. Our country takes its own time to adopt to a new system and introduction of GST and other collective reforms, will certainly deliver robust growth in times to come.

In laminate division, we have seen sustained growth as well as improvements in margins. We also expect much robust performance in this division in quarters to come. Our new ventures 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 have performed exceptionally well. Company is contemplating expansion of both MDF and particleboard, as they have reached their optimum and best capacity utilization.

CFS division has faced issues to new competition, and it will take a year or two to absorb the capacity in the market and the performance to come back to normal. The GDP of West Bengal is one of the best in India today. I think it has happened because of the lower GDP base of West Bengal. But this growth of about, say, 12% GDP growth in West Bengal will certainly reflect on our CFS division in times to come.

Forex fluctuations have been very high and would have been resulted in huge losses to the company, but due to timely action taken by our Chairman, we have hedged our position, which has resulted in good benefits from the company. USD 20 million were hedged \$1 was at Rs.69.

On debt front, our long-term debt stood at around Rs.120 Crores. The same has been reducing continuously through internal accruals and as a result, our long-term debt ratio is lowest at 0.16. I assure our investor fraternity that CenturyPly maintains a very transparent system and also maintains the best corporate governance practices.

Now I hand over to our CFO, Mr. Arun Julasaria to take you with key financial data for current quarter, post which we are open to questions and answers. Thank you.

Arun Julasaria:

Good afternoon, ladies and gentlemen. First of all, I will have 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 first quarter, along with detailed analysis 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.

On Y-o-Y basis, overall net revenue, including other operating income increased from Rs. 537 Crores to Rs. 574 Crores, with a growth of 7%. Blended EBITDA margins are now 16.3%, against 13.5% from last whole year. EBIT margins are now 13.4%, against 11.3% from the last full year. PBT is now at 11.8% compared to 9.4% last full year.

Profitability improved due to stable operations, stable rupee and overall improved performance, particularly in MDF segment. Results for Q2 maybe a bit adversely affected due to flooding and problems of goods momentum across country. However, for the whole

year, we are targeting blended topline growth of 10%, with EBITDA margins of near about 15% and PBT of 11%.

Tax rate will depend upon product mix, profit mix from exempted and other units, but likely to be at 25% with the outflow restricted to networth of 22% approximately.

With these words, I would like to conclude and we invite questions from participants, please.

Moderator: Thank you very much. We will now begin the question and answer. The first question is from the line of Yash Gupta from Prince Poly Plast Private Limited. Please go ahead.

Yash Gupta: Thanks for the opportunity. Sir, first question is that there is a spike in the MDF price from Rs. 20126 to Rs. 20986 any idea about the demand/supply scenario?

Sajjan Bhajanka: This is a jump, can be for many reasons. We have taken a small price increase in our teak products also and due to the mix of decorative MDF is the premium MDF and we have the HDHMR products. So whenever the mix changes, the prices may vary a little bit up and down. As far as the demand-supply is concerned, the supply actually has not increased in last about 6, 8 months, 9 months' time before that, of course, by production of Action and Green had come. As far as North India is concerned, the consumption is going good, and the growth in MDF is visible from our own consumption because we are now able to run our factory at full capacity at Hoshiarpur, and we are already in the court that we should now expand our capacity.

Yash Gupta: Okay. Can you give any number on the total MDF capacity in the whole country? And what is the supply at this point of time?

Sajjan Bhajanka: In North India, there are three important players, Century is with capacity of 600 cubic meter per day, Green is with capacity of 600 cubic meter per day and Action is with capacity of 1,000 cubic meter per day. So in North India, 2,200 cubic meter per day capacities and in South India, Green is over 1,000 cubic meter per day than Rushell Décor is there around 400 or 500, and they are expanding capacity, which should be operational by year-end and it should reach 2,000 again. Apart from these capacities, there may be some small capacities, but these are the major capacities, size in the 600 cubic meter more capacities of some small batch process plants, maybe there in fact.

- Yash Gupta:** Okay and what our expansion plans in MDF by what capacities are planning to do that?
- Sajjan Bhajanka:** We are planning to put up a joint plant in UP, UP is the richest in plantation timber and availability of the plantation timber so particularly Sitapur area is above that. We got a license from UP government for putting up particleboard and MDF plants so we are planning capacity of around 500 each in UP under a single roof, 500 MDF, 500 particleboards.
- Yash Gupta:** Okay thank you very much.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities Limited. Please go ahead.
- Nehal Shah:** Thank you Sir for the opportunity first thing congratulating for a very, very good set of numbers. Sir on the plywood side, one question which arises has been the volatility in the margins so while last year, we were very, very gung-ho on margins at 16%, 17%, and which is going on. Now the trajectory in last couple of quarters went down to 11%, 12%, and now it is again, gone up to 15%, 16% so what kind of margins do we think is sustainable considering the kind of volatility we have seen in the recent past.
- Keshav Bhajanka:** As far as last quarter was concerned, the volatility was there because lot of other factors, a lot of marketing expenses taken and there are certain political factors right, the political donation etc., has sort of reduced the margins in the last quarter. But I believe that 14% plus margins is a bare minimum that will be looked into for this year and going forward, we will definitely try to improve upon this.
- Nehal Shah:** The 14% plus margin and what kind of growth are we looking at for the full year?
- Keshav Bhajanka:** For the full year, for the remainder of the year, we were trying to touch double digit growth, but blended growth for the entire year should look at something between 7% to 8%.
- Nehal Shah:** 7% to 8% blended growth. Okay thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abhishek Joshi from CIMB. Please go ahead.

Abhishek Joshi: Sir in the MDF segment, have the prices of plain MDF stabilized you more or less like, they were falling constantly last year so what is the price trajectory from here on going forward for MDF?

Sanjay Agarwal: Prices had fallen last year, of course, after April last year until maybe October you can say and after that, they stabilized the prices have not gone down in this year, even in the Q4 the prices have not gone down and we have taken a small increase in prices in our thicker grades. Thicker grade means 6mm-plus thicknesses we have taken price increase also so what I view that there are no new capacity coming up and since that nobody has even a planning for new capacities so there is stability in the market and the consumption of MDF is increasing quite fairly it seems. There are no data available, but of course it seems that it is quite good so I do not see any reason in near future for prices to go down and that is why probably we are able to run our capacity to whatever we are able to produce now.

Abhishek Joshi: So can we see like sharp price increase at the same time, because of no significant capacity coming up in near future.

Sanjay Agarwal: No. There is no chance of any sharp prices increase because there is a threat from import always. If you receive extraordinary prices, the imports will come immediately. It takes hardly on one month to get more produce from outside. So I do not think there is any chance of sharp price increase. We will actually love that if you can stabilize at these prices and maybe here and there at different times maybe take small increases so and still, we know that Green has got this capacity of 1000 cubic meter, 1100 cubic meter in South so if the price has increased too much they will try again to feed up more from even South to North, which again, we do not want so I do not think sharp price increases are welcome.

Abhishek Joshi: This thing is also true for Northern region, right? Not only for South?

Sajjan Bhajanka: Yes, mostly for Northern region because Southern region is actually open to imports a lot, and then they are not paying the transport charges also. Mostly imports will have come either on Western port or Southern port and from there to bring to Northern India, the transportation charges are there and that is why, actually, Northern area is a little protected.

- Abhishek Joshi:** Another question I wanted to ask was, your gross profit margin in the MDF segment has improved significantly so has there been a significant reduction in raw materials capacity utilization?
- Sanjay Agarwal:** Basically capacity utilization has improved. We will see that I think our growth this year is about 39% is the growth in our sales volume on year-on-year.
- Abhishek Joshi:** Okay. So the gross profit margins are basically increased because of operating leverage, right?
- Sanjay Agarwal:** Yes, absolutely.
- Abhishek Joshi:** And one last question, how is the demand spending out for your plywood segment? Like one ground, is there any improvement in the sentiments of the real estate sector also?
- Sanjay Agarwal:** I think you know the real estate sector is better than us. There are no positive sides at all, and whether it since that time which is going only still from back to work so which is not there and that is why, probably, we are not seeing any much growth in our plywood sales. Once the real estate sector really takes up growth, you will see much larger growth in plywood segment and now we are reading everywhere that all other industries are suffering because of the economics slowdown after the budget so that is but then we are actually able to continue, and we have been able to improve our profits so that is a plus point, I think Century Plyboards has given its highest ever EBITDA for many quarters.
- Abhishek Joshi:** So how successful have you been to capture the mid-segment plywood market? You were trying to actually do that.
- Sanjay Agarwal:** That is where the main growth is coming from. Otherwise, our main brand is not growing at the pace of even 8% or 9% or 7% also that is where the growth is coming mainly from the mix segments.
- Abhishek Joshi:** Can you give the volume break-up of growth between premium segments, mid segment?
- Sanjay Agarwal:** That I think if you really connect with our finance department later on, they will be able to give. You can message them; they will certainly supply you. The numbers are higher.

- Abhishek Joshi:** Okay thank you that is all from my side.
- Moderator:** Thank you. The next question is from the line of Sneha Talerja from Edelweiss Financial Service. Please go ahead.
- Sneha Talerja:** Thanks a lot for taking the questions, actually it is more pertaining to the plywood segment might be repeated this question. I just wanted to get more clarity on the margin expansion that we have seen in the current quarter. So as you mentioned, last quarter, there were some extraordinary expenses you see here in Q3. The margin stood at about 12%. Why how suddenly margins have come to 15%? Or what is the sustainability of these margins at these levels?
- Sajjan Bhajanka:** You will have to go segment wise. If you are talking about blended focus margins, as I said at the beginning, the total margins there mainly improved because of stable rupee and overall improving in all the segments, particularly in MDF and if we talk of sustainability then focus margins for this quarter, EBITDA margins for this quarter.
- Sneha Talerja:** No, I was particularly talking about the plywood segment where for MDF do we understand this operating plywoods coming in...
- Sajjan Bhajanka:** But you were talking about plywoods?
- Sneha Talerja:** Right, Sir.
- Sajjan Bhajanka:** In plywood, we have taken certain results of cost cutting and then chemicals are one very important ingredient in the slide-making so the prices of phenol formaldehyde, these have come down substantially so we are able to sell some things on the raw materials front and at the same time, the face linear prices have also come down. Core linear prices are more resistant and our selling price is, again, more or less stable so we have not taken any price cuts and at the same time, we have shared on the raw material projects.
- Sneha Talerja:** Okay. How are the price moments now? Do we expect to give any discount to dealers or something in the next quarter, as the prices have come down? Or can we expect these kind of margins, to sustain?

Sajjan Bhajanka: Whatever the present that would be continued as it is what are the dealer's margin, other things, payment terms, incentives, linked, higher turnover so there is a set mechanism for that and, that will continue change as it is and on the branded segment, although there is some demand resistance, it is not growing but at the same time, there is no price pressures. None of the leading manufacturers we are intending to reduce price or there is any control of competition as well.

Sneha Talerja: So one more thing is what up with our market, we had a strategy of gaining market share. That is what we were highlighting in last two quarters. Are we continuing to see that which we would be okay compromising on the margins, but we would want to gain market share?

Sajjan Bhajanka: Last quarter, there was one like Green, they have stated so Green panel that is your new end-to-end and at the time around green plywood, there had existing manufacturing capacity so they, along with the outsourcing, they kept on maintaining their volumes and in the meanwhile, in the last year, Green panel could not sell sufficient quantity so they have also entered the market with discounts and other things and competition so we kept ourselves aloof from that so we did not enter into the price cutting and other things and so the cost of like increasing volumes, we maintain our margins. For the last quarter and for the current also, we are maintained the same thing and things will be stabilized after this and things we will back to the normal.

Sneha Talerja: Okay. Sir, what would be a split between the Sainik and premium brand?

Sanjay Agarwal: Sneha, the premium brand will actually still the major share so about, I think, 45% is still the premium brand, and the rest of them is actually either the middle level brand or the second level brand are there, actually.

Sneha Talerja: And so this is versus our last quarter I mean, corresponding quarter same year would be how much, with Q1 FY2019?

Sanjay Agarwal: Very frankly that data is even I have not checked that, what is the difference since last quarter, but there is not huge differences because these growths are happening at a slow pace only so if the main brand is growing at maybe, say, 3% or so these brands are going maybe at 10% and the quantity of the middle level is not so high, even the 10% quantity is really not making much of a difference to the total percentage so yes, slowly, slowly, they

are growing and we hope and we expect that the way the market and the economy is in a year or two years' time, these new brands will actually take over the main brand, actually, and that is where the main growth will come from.

Sneha Talerja:

Got it. Sir, my last question, if I may be allowed, is related to Laos. Can you have mentioned that you might have to take Rs. 75 Crores of a one-off kind of a thing? Can you give some more clarity what has happened in Laos' front?

Sajjan Bhajanka:

Laos actually century plywood has major share in the field of veneer, so we were not only managing our own requirement of face veneer. But in addition to that, we were one of the biggest seller of veneer in the country so initially, we were importing timber, and we had four factories manufacturing face veneer: Kolkata, Chennai, Kandla and Karnal. Then gradually restrictions started coming in, in the exporting country of timber and the first was the Myanmar. They put a ban on export of timber that was April 1, 2014 so before that, we have set up a unit in Myanmar and it was announced one year in advance that they are going to export then of timber so we created sufficient stock in India so 2014/2015, we earn good money in veneer, we produce in India. At the same time, we enhanced the capacity of our Myanmar plant and kept on exporting from there. But the next year, Myanmar government changed and the new government chairman, they put a ban on timber cutting in Myanmar so that time again, to maintain our own veneer requirement and to supply the market, we find a new opportunity in Laos. So Laos, we made events with 5, 6 existing units in Laos and we supplied machinery to them peeling machines, boilers and started manufacturing veneer there and started bringing veneer to India for our own consumption and for selling. But in May 2017, Laos government also bans export of veneer and this is the only country in the world, which has treated face veneer as intermediate products and not finished products. Otherwise, in the world over, veneer is treated as the finished product and it has got separate HSN, so we pleaded with the government to their high level delegation led by a minister who came to India and discussed with us and kept on representing to them, and in meanwhile, whatever stock we had in Laos that they allowed to so we exported to India, so that we converted to veneer that all the timber what are the available and the veneer available that we produce and in the meanwhile, one unit we converted to plywood also in Laos and the idea was from the total 6 units over veneer generated from all the units would come to one plywood unit and we shall manufacturer, but as all the five units that we had to shut down due to the ban on export of veneer, so there was no availability of core veneer also to run the unit in Laos, so now Laos

government wants us that we should put plywood factory unit in all the factories so this will not because of two factory already, we have one done last year all the remaining even wise there so we took out the machine and abundance, so now we have the two units, one is on the FDI basis, on the lease then from Laos government and where we have installed veneer machines. The one unit we have in the joint venture of the local units and which is for the making of plywood and two units are there. We have tied up with existing license holders of saw mills and supplied them with machines, but we are not big in numbers so some filling machines, we have supplied them so though two factories are closed down and those we are not revived, one factory which is for veneer, that we will check the decision what to do and again, manufactory which we start there again we have to take decision on that so we start making the plywood and with the veneer and we are trying to sign some joint venture partners if some foreign company or some local company comes the joint venture in that case so the return issue from the Laos government, it was in the month of June only that indicating that we are not going to start veneer export, and they want us to convert our units to the plywood so that cannot built it and we may take reasonably or partially that we are working on that and many exploring the possibility of some joint venture, so time will tell, but this I elaborate you, I think all the people may be interested to know more about Laos, so for the knowledge of everybody and I explained in detail.

Sneha Talerja:

Got that Sir.

Moderator:

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

Pranav Mehta:

Congratulations on the good set of numbers, Sir just wanted to understand on the raw material part on the plywood side so is there any chance that the plantation timber prices might shoot up in the next, let us say, 6 or 9 months because of the unavailability of plantation timber particularly in the North India region and with the fall in fees for veneer, is this sustainable? Or will it move back to original prices within 1 or 2 quarters?

Sajjan Bhajanka:

In plywood there was three major components, one is core veneer, one is face veneer and another is glue adhesive so both front veneer prices are coming down and as far as core veneer is concerned, there is no dearth of that. The UP government last year has given many new licenses for putting of veneer peelings, supply of core from UP is encouraged and there are some pressures on plywood sales and what particularly for the unorganized

players, so unorganized players they are specific problem and many factories, Punjab to Haryana, had been closed down because of earlier they had benefit it no more, earlier out of 3300 number of plywood in this, 3200 were either fully exempted or partially exempted. Now none of them are exempted. Now all 3300 units they are in full duty sectors so their financials are initiatives and there are chances that there will be some migration on this and overall, MDF and plywood, there is possible growth in the panel segment is partially taken up by the MDF and particleboard, so the plywood growth hedges subdues, so it is not growing as it is used to grow from last decade or so. So that is the one thing and so I do not see any problem in make face veneer. We have now enhanced our production in Myanmar unit because their prices have come down and it is making profit now and at the same time we are putting up a unit in Gabon, because Gabon has become new source of veneer for Indian companies, India private manufactures and Gabon, the price of the timber that is Acume is for the phase is comparatively much cheaper. So the cost of face veneer from Gabon would be less, but at the same time, Gurjan from Myanmar is more preferred. So for the better quality, better brands, we shall be continuing using in Gurjan and for our less costly brands, we may shift to Acume. At the moment, we are buying Ockume from the Gabon units and our own units is likely to start production from the month of December.

Pranav Mehta: Okay Sir and Myanmar unit as they supply from the government improved in last 6, 9 months?

Sajjan Bhajanka: Yes. In Myanmar last two years, more than 50% units has already been shut down and the remaining units are operating at a lower level so there is less demand and there is two years back, or even last year, we took timber in government auctions at \$1100, \$1200 per hopus ton now the prices have gone down to around 700 level so this is first level, here we can produce, also, we can make some earnings also and at this level, the Myanmar business are sustainable, so whether we are increasing our collection in Myanmar.

Pranav Mehta: And answer another question was related to MDF so and what would be your targeted capacity utilization for FY2020 in MDF?

Sajjan Bhajanka: It should be around 90%.

Pranav Mehta: 90%. Okay and Sir, what about particleboard?

Sajjan Bhajanka: Over 100%.

Pranav Mehta: Sir related to particleboard, so now I think you are running at optimum utilization so there is a new plant comes in, you will be able to serve the market with your existing plant? Or you need to do some outsourcing as well?

Sajjan Bhajanka: There are many developments and like the thinner plywood to some extent, it is being replaced by MDF so MDF is one of the OEMs, like particleboard it is predominately till today is also consumed by the OEMs to manufacture the furniture and tilt board furniture. IKEA like they use 90% plus particleboard, but MDF it has found usage in the domestic consumers also with the homes. They started being sold from the plywood dealers, factory and the dealers also, and so we are very sure UP state and a big market for plywood so like we are contemplating 500 to 1200 capacity for both MDF and particleboard and in India, particularly, if you divide India particularly East and West that the entire excluding UP from the West then entire line, there is not a single particular factory in the eastern side of the vertical divide and there is no MDF factory so only one MDF factory will come in Vijayawada that would be in South India and then we have both the factories, plywood factories, ours and that one associated decor, that is also in South India so North India on the eastern side of the divide, vertical divide, there are no particle factory and no MDF factory so we do not see any problems because it would take us more than a year now to establish the plant and then first year, there would be taking trouble to reach the optimum production that will raise minimum of one year so after two years, we are pretty sure that we should be able to sell the entire products.

Pranav Mehta: Okay Sir. Thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Aseem Bharade from IDFC Securities Limited. Please go ahead.

Aseem Bharade: So had a few questions. Firstly, this particle and MDF unit that you plan to set up in UP, so what would be the total capex and by when do envision this plant is to be operationalized?

Sajjan Bhajanka: It should take around 15 months from now, and total capex should be because it is two: both particleboard plant and MDF plant, and hedge like electrical services like chipping, like the energy plant did all would be common so with that we still be able to save because

of Hoshiarpur, our total investment will be around Rs. 350 Crores for 600 cubic meter capacity so here, we are more or less same capacity we are contemplating and particleboard cost of the machines are comparatively less so maybe it is something between Rs. 400 Crores to Rs. 450 Crores or 1000 cubic meter capacity.

Aseem Bharade: And why particularly UP Greenfield? I think earlier you are also planning to expand our Hoshiarpur capacity, right? Has that plan being put on the back burner for now?

Sajjan Bhajanka: Yes, we had a lot of discussion on that, and we have deliberated. So there were certain considerations for this. One thing is the price of plantation timber already around Rs. 3.40, Rs. 3.50 in Hoshiarpur and if we increase capacity there, we start buying more material to that cost would have jumped to maybe around the Rs. 4 per kg and in UP, there is sufficient raw material available for MDF and particleboard at Rs. 2 per kg, so that was one thing and from Hoshiarpur and from UP like the distance to the main market that Delhi or the Central India and this thing, is more or less the same, so on the finished product front or logistic would be more or less the same. On raw material front, it would be less and another advantage is there in UP, because we have signed the agreement during the invest UP and it was their policy also, we are entitled to 200%, up to 200% tax benefit in next 10 years from the revenues from the GST so whatever the state GST we earn that would be exempted up to the level of 200% or investment for coming 10 years so these were the precedences and UP itself is a big market, a lot of new OEMs are coming up in UP, this will lead the particleboard for that and the plywood it is finding usage in the domestic segment.

Aseem Bharade: This South India Greenply has expanded capacity recently and Rushell will also be expanding capacity soon and these expansions are pretty massive. So is there a possibility that these South India players can possibly disrupt the market in the north. Do you seeing price stability right now, but can that be sustainable given that they are used capacity in the southern markets, right now?

Sajjan Bhajanka: So South India because greens plant is very distant South. It is near Chennai, and like on the western side you have a Kandla port and Eastern side, you have Port of Calcutta, Paradeep, so the MDF could be imported to any of these ports so these are the dividing line, the south, they have to compete with the imported MDF so our solicit in the additional cost which the either the importer would incur or the southern plants will incur in bringing the material from South to North or from the importing port to North India, so that is a clear

difference of around another Rs.3,000 to Rs.3,500 per cubic meters. That is giving us extra comfort.

Aseem Bharade: Okay. So it will not be economically beneficial for the southern players to disrupt the market in case there is a demand issue in the South. Okay.

Sajjan Bhajanka: Yes.

Aseem Bharade: Another question. Sir, in the opening remarks, you guys mentioned that Q2 could be disrupted due to flood. Would you be able to give us an estimate of the potential loss in revenue?

Sanjay Agarwal: Yes, and you see that this kind of a caveat, actually, that is really not going to disrupt totally, but there is a caveat because Kerala is a big market for us and it is completely under flood and part of Maharashtra and Bihar and so it is kind of caveat, it is nothing alarming.

Sajjan Bhajanka: And after floods, again, there could be demand for plywood due to disruption by flood due to the people that have to go for new furniture, new distinct repairs and other things. Usually, the floods are followed by demand for our products.

Aseem Bharade: Sir on the laminate side, are there any near-term plans to increase capacity either Greenfield or brown?

Keshav Bhajanka: No, currently, there are no plans to increase capacity. We are currently operating at 100% capacity on 5 of our line. We have 6 line installed. Our first target is to reach 100% utilization for all 6 plants.

Aseem Bharade: That would be achievable during this year itself?

Keshav Bhajanka: Yes, we are target in Q4.

Aseem Bharade: Okay. So on the Gabon face veneer plant, you said is going to come by December of this year. So how much capex has been committed for this? And will this plant capacity be sufficient for us? Or would you be selling externally as well?

- Sajjan Bhajanka:** We still be selling externally as well, because usually we use the prime grids for our own requirement and the lower grids, we sell in the market. So this we are doing earlier also for Gurjan, from Laos, from Myanmar, and we are using prime grid outset and lower grids at a lower price, we are selling in the market so same strategy will continue and as far as capex is concerned, the major investment on the land, which is around Rs.16 Crores so that is acquired by us, or the policy of Gabon, that SEZ joint venture between Olam and government of Gabon, so they give this on installments. So our installment against this Rs. 16 Crores, would be around Rs. 3 Crores we have already paid, and the remaining amount we have to pay in 42 months in the next 3.5 years and apart from this, there would be capex of around Rs. 10 Crores, machine and other infrastructure.
- Aseem Bharade:** Approximately Rs. 25 Crores, Rs. 26 Crores will be total...?
- Sajjan Bhajanka:** Yes, Rs. 25 Crores, Rs. 26 Crores would be the ultimate investment and in timber, now I think this around Rs. 13 Crores will be in installments and first installment would start after 6 months of production.
- Sajjan Bhajanka:** One final question, Sir, your consolidated level PAT was about 400 million-odd. While at standalone, it was at 480 million. Even on EBITDA, there is a 60 million difference so could you help me understand which subsidiaries are driving the loss at the consolidated level?
- Arun Julasaria:** Got it. In Q1, this is also mainly in our Myanmar unit, but the Myanmar unit we are speaking it very far. By year-end, there will be no loss. There will be some positive results in fact.
- Aseem Bharade:** Okay thanks a lot.
- Moderator:** Thank you. The next question is from the line of Lakshmi Narayan from SBICAP Securities Ltd. Please go ahead.
- Lakshmi Narayan:** Sir one question on MDF for the South players like, Green panel, etc., for this quarter, there was a 25% decline in realizations. 20% to 25% drop is there. You have not reported such a sharp drop so the dynamics continue to be very bad in the south market? Or how do we interpret that?

Sajjan Bhajanka: I have already told you the biggest threat to the south market is imports. There was an increase in prices of MDF are coming down and mainly our neighboring countries, the Asian countries like Vietnam, Indonesia and Malaysia, Thailand so these countries are exempted from any import duty due to that agreement between India government and SEZ so there is zero import duty so there is no duty barrier and most of these countries are not covered under antidumping also. So that way it becomes and the domestic is by ship, if the material comes to these ports their logistic cost are also very less so South India is facing a very big competition from the imports and like even particleboard with our southern plants, we have to complete directly from the imports. We have to match the cost with the import. In North India, we still have debt advantage. The price will be a little better. It consists of the import price plus the logistic costs from the nearest port to the Northern Indian destinations.

Lakshmi Narayan: Okay got it, thank you.

Moderator: Thank you. The next question is from the line of Pravin Sahay from Edelweiss Financial Services. Please go ahead.

Pravin Sahay: Sir, my first question is, is there a land acquisition done for Sitapur plant or is still in the nascent stage?

Sajjan Bhajanka: We have offers from government in the Industrial state but that land is very costly so that we are keeping in standby that land would cost us around Rs. 70 lakhs per acre and whereas other lands are available in the vicinity of Rs. 20 lakhs per acre. Our team is working there we have found certain plots there in different areas and which are very, very central also raw material availability wise so connected with the main roads and electricity availability.

Pravin Sahay: So Sir for 15 Months, you will achieve this?

Sajjan Bhajanka: Once we placed the order for machines, the first consignment would start reaching India after six months and in Hoshiarpur also, we did exactly the same, we decided for the machines placed to order on December 2015, and then we purchase land by April 2016 and then we completed the plant in another year-and-a-half and started commercial production from October 2017, so more or less, same study will be there in UP.

Pravin Sahay: Secondly, Sir, on Kerala, as you had said that, that is one of the major market so can you give some sense of the last year, because last year also, there was some flood so have you received some incremental business post of flood last year from this region?

Sanjay Agarwal: Yes. Very frankly, actually it is difficult to remember. Kerala is a very important market for us because of being near to coastal zone. The consumption of premium plywood is quite true there at this moment because of all the problems of transport and handling etc, there are certain issues. But actually that caveat to us filed by Julasaria Ji because we expect that we have some changes will be there, but they will not be at an alarming level so I do not think in the last year we were affected, and we will get something really very good. Even the downside in small and upside also will be yes, there will be an extra upside because of the floods. There will be an upside after the flood. There is extra demand.

Pravin Sahay: Okay and lastly, on your thicker MDF, so how is going to price of that thicker MDF as compared to your average realization?

Sajjan Bhajanka: Thicker MDF, the prices are comparatively lower in comparison to thinner so like 2 mm is costliest and then 3 mm, 4 mm, gradually, there is some difference, but not much in cubic meter terms, but with the maximum and minimum, the difference is within Rs. 2000 cubic meter. Again, production is more in thicker and in thinner, production is less, so the plant profitability-wise it is more or less same.

Pravin Sahay: Okay fine so is there any contribution as such like this much of contribution is from the thicker in that number do you have?

Sajjan Bhajanka: We have but at the moment, the figures are not in handy with us.

Pravin Sahay: Okay offline I will take it. Thank you for taking my questions.

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

Siddharth Raj Purohit: Sir what will be the contribution of Sainik in the overall plant segment?

Sajjan Bhajanka: Sainik is about 12 lakhs NA out of 50 lakhs, about 30%.

Siddharth Raj Purohit: Okay and what will be the margin difference, Sir, between the new product and Sainik?

Sajjan Bhajanka: There is a difference. Margin in Sainik is lesser and margin in the prime is higher.

Siddharth Raj Purohit: Ballpark numbers, Sir, what will be the difference? Just rough estimate, Sir?

Sajjan Bhajanka: You want break up between Sainik and prime?

Siddharth Raj Purohit: Your main product, Sainik ply, what will be the margin difference between Sainik and prime in pricing?

Sajjan Bhajanka: Generally, by value 30% is Sainik, but volume number, I do not think instantly you can call it separately.

Siddharth Rajpurohit: Sir, I am talking about margin difference at the EBITDA level, operating level, margin difference?

Sajjan Bhajanka: Margins level I mean to say it should be almost the same because lot of overheads are same.

Sajjan Bhajanka: Like we cover our overheads of marketing and sales, mostly in our prime products and in the lower products, there is some item for outsourcing also so those outsource product under our quality control are channelized in the best way possible logistically from the source to the destination so we reduced cost in that so whatever we are that is by better logistics by better turnover and keeping the cost of sales lower, so although there is 25%, 30% difference in the price in our premium product and this thing, but difference in the cost is not that much. There is difference in cost also, the premium products, raw materials and other thing and configuration, the quality of the raw material. These are of better standard and in the lower product is competitive less, but again, it does not meet all the standard BIS and and other things, so the difference is not that much. But due to better logistics, we try to make up for this thing and with some item outsourced, we keep the cost also under control.

Siddharth Rajpurohit: Okay and Sir, can you give me your various segment-wise, topline growth and margin expectation?

Sajjan Bhajanka: All the little figures are not handy with us, so you can call Mr. Arun Julasaria or Mr. Abhishek Rathi later on and they will give you the figures.

Siddharth Rajpurohit: Okay but on a consolidated basis, we are expecting a 10% topline growth and 15% EBITDA margin to be maintained, right, Sir?

Sajjan Bhajanka: Yes.

Siddharth Rajpurohit: Okay Sir. Thank you and all the best.

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

Abhishek Joshi: Sir, the GST tax exemption, you were talking about, is it related to Sitapur plant right?

Sajjan Bhajanka: Yes. To some extent it is available to us in Hoshiarpur plant also but Hoshiarpur is governed by Punjab government policy, and they have kept the benefit to 70% of the investment and in UP, it is 200% of the investment, but 200% in 10 years, is usually not achievable. We still not be able to achieve because this would be in the form of the state GST, which is at the highest level, 9%. But there would be some input credit also so effective GST utilization would be 5% to 6%, so 5% to 6% in 10 years so hardly we will be able to earn around 100% of the investment so in 10 years, our investment would become free, but the GST benefit is available in Punjab also and in UP also.

Abhishek Joshi: Sir like when this new plant, Sitapur plant become optimally, it achieves an optimal capacity so then you would have better pricing power in MDF segment because of this benefit?

Sajjan Bhajanka: The MDF, as far as my team, led by Mr. Sanjay Agarwal, he is very confident. Today, we have availability of another 300 cubic meter of MDF, we can easily sell it so that is our situation so by the time our production comes, this 500 cubic meters should not be a challenge.

Abhishek Joshi: No. I wanted to understand if this GST exemption will give you any extra benefit to increase your margins or to capture more market shares in future?

- Sajjan Bhajanka:** Hopefully, we will not pass on this benefit. Generally, we will not pass on this benefit and whatever, like on the price front, the price, we will totally increase price so there, it will give us better like absorbing limit. It would be there with us.
- Abhishek Joshi:** Yes. So we would have better margins you want to say?
- Sajjan Bhajanka:** Yes.
- Abhishek Joshi:** Can you roughly quantify by how much percentage points can the margin increase?
- Sajjan Bhajanka:** Keshav?
- Keshav Bhajanka:** Yes, we will have two distinct advantages. One will be lower cost and the second will be the GST benefit that we will get. Both of these will depend, I think lower prices of September will have to compare for what is in Hoshiarpur versus what is in UP one year from now, which is difficult to do for the GST benefit, it will depend on how much we will see in this sell in this state so I cannot give you approximately any figures at the moment. But definitely, we should look at a higher EBITDA in Sitapur as compared to Hoshiarpur we both running at high capacity utilization.
- Abhishek Joshi:** Thank you Sir that is all from my side.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.
- Achal Lohade:** Sorry, I joined the call a little late. Are you talking about new capacity addition for MDF in UP? What is the status?
- Sajjan Bhajanka:** We will explain this we are planning, new capacity of around 500 cubic meter per day of MDF and 500 cubic meter per day of particleboard under a single roof in the UP.
- Achal Lohade:** Okay and what is the capex are we talking about in the timeline, Sir?
- Sajjan Bhajanka:** Around between Rs. 400 Crores to Rs. 450 Crores.
- Achal Lohade:** Both these plants put together? Both these...

- Sajjan Bhajanka:** They are put together because many things would be common for these both the plants.
- Achal Lohade:** In two years you see?
- Sajjan Bhajanka:** We expect to complete the erection by a year-and-a-half.
- Achal Lohade:** Okay and in terms of the pricing can you talk a little bit about how are the pricing scenario with respect to MDF? What is the price increase we have taken? And was that entirely been absorbed by the channel for both MDF as well as ply?
- Sajjan Bhajanka:** Last six months, we have taken price increase and from the thicker grades, thicker grades of MDF, and that has been well absorbed and are applicable and at the moment, we are comfortable with margins with productivity and with all the things and again, when we get a little opportunity as for the demand-supply cycle, we will try to improve.
- Achal Lohade:** Right what was the price increase and how much is the thick MDF as a percentage of total volumes, Sir?
- Sajjan Bhajanka:** Thick MDF is about 75% of the total volume and the pricing we took was about 3% to 4% depending on thicknesses and all that actually. That is about MDF and plywood, we have taken a very small price increase of 1% across all products, and we have taken about 3% to 4% increase on Sainik MR Products.
- Achal Lohade:** With respect to the margin improvement, if I look at on a Q-o-Q basis from fourth quarter to first quarter for the MDF business, can you explain as to what is driving this margin improvement? Is it...
- Sajjan Bhajanka:** Basically better utilization, capacity utilization. You will see that year-on-year from Q1 last year to this year, our capacity inflation is 39% up. So that is the basic reason that we are more efficient.
- Keshav Bhajanka:** And in MDF, like variables are comparatively lower, variable costs is comparatively lower. With every higher production, every increase in production, our overall costs come down. The fixed cost is very high.

- Achal Lohade:** No I was talking about from fourth quarter to first quarter margins have improved from 15% to 23%. So I was just curious, is there any cost or is there any one off?
- Sajjan Bhajanka:** The cost roughly is also there, because the adhesive price that has substantially come down like formalin, formalin is a major distinct, melamine and formalin these two ingredients are available at cheaper price and at the same time, we have done some improvement in our operations so earlier, our electricity consumption was around 350 units per cubic meter, that has come down to 250 units per cubic meter and again, we have installed some equipments, which have reduced our group consumption costs so these are collective measures, higher capacity utilization, better management, reduction in the cost, so this are all factored in.
- Achal Lohade:** What kind of margins are we looking at from the full year perspective? You think the current margin....
- Sajjan Bhajanka:** Current margins will continue, there is cope of some more improvement, but there is no chance of going back.
- Achal Lohade:** Understood and specifically with respect to the MDF segment, what is the mix in terms of North and South for us? Like how much do we sell in western and southern markets?
- Sajjan Bhajanka:** We are selling about 70% to 75% in the northern market and this in West, Eastern, South mixed.
- Keshav Bhajanka:** Other markets, we are selling mainly the premium products, not like waterproof grade, FDA grade to mostly we sell those products so where even others are they are costlier product the logistics constitutes lower portion of that product realization.
- Achal Lohade:** Right and what would be the mix of this high value, value-added products, premium products in total, Sir?
- Sajjan Bhajanka:** In total, now we are managing around 20% premium, 50%.
- Achal Lohade:** Okay got it and I was trying to ask with respect to pricing, specifically for South market, given the capacity of another competitor coming on stream sometime back?

Sajjan Bhajanka: Yes, southern market the passage has duly reduced, but we are still maintaining, as far as our expected realization to the company is concerned, we are able to maintain the same utilization as we are realizing in North that is why you know, slowly, slowly, our sales to South will be reducing as and when they are increasing their presence in the market and for that, we are fully ready. That is not an issue with us.

Achal Lohade: Right and just last question, if I may, Sir, with respect to the ply growth has been fairly subdued for a while now so how do you see the scenario, as such scenario kind of worsen, we could expect to the demand at the industry level? And what kind of growth are we looking at for this segment?

Sajjan Bhajanka: The growth in plywood would continue to be subdued because world over that was the scenario. The plywood, the MDF, particleboard, they are creation of last three decades so maybe China, first MDF plant might be stabilized 30 years back and in these 30 years, now plywood, MDF and particleboard have surpassed plywood and the plywood's total volume, maybe 17 million cubic meters and MDF and particleboard joint volume is around 85 million cubic meters, 90 million cubic meters so that way, in India also, at the moment, our total volume of plywood is around 10 million cubic meters and MDF and particleboard together is less than 2 million cubic meters so MDF and particleboard will keep on growing at a very rapid pace, and we expect the constitution of India and more like the people go for tailor-made furniture and even it is carpenters, so plywood continue in the market. But the growth would be subdued if the MDF particleboard is growing at a rate of 20% per annum. Plywood may grow at the rate of 5%.

Achal Lohade: Great Sir. I will come back for the questions.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi Services and Stockbrokers. Please go ahead.

Ashish Poddar: My question is, out of this Rs. 400 Crores, Rs. 450 Crores of capex. If you can divide in FY2020 and FY2021, what will be the number and also the source of funding for that?

Sajjan Bhajanka: Like capex would we start. First, we have to give some advantages, we have to buy land so this maybe there would be around Rs. 50 Crores to Rs. 100 Crores within this financial year and the rest would be incurred in the next financial year and typically, this Century we

usually really do not take more than 50% from these institutions, so although the 50% would be our existing surplus and our generations in the next 1.5 years and 50%, we should borrow from the institutions, maybe in the view of ECB the term loan from there.

Ashish Poddar: Okay. Now is this plant firm up or still there is a chance to make some changes in the plan?

Sajjan Bhajanka: Yes, until finally it is like conceived and finally concluded, until then whatever inputs we get accordingly, we keep on improving but at the moment, we shall put the order to the machinery suppliers, so that day it will come up.

Moderator: Thank you. As there are no further questions, I will now hand the conference to the management for closing comments.

Sanjay Agarwal: So friends, thank you so much for joining us on the call and taking your time looking and listening to us, and hopefully, we will see you next time in Q2 FY2020 earnings call. Thank you so much.

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