



“Century Plyboards India Limited Earnings Conference Call”

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MODERATOR: **MR. KARAN BHATELIA - ANALYST, ASIAN MARKET SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Century Plyboards India Limited Earnings Conference Call hosted by Asian Market Securities Limited. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhatelia from Asian Market Securities. Thank you and over to you, sir.

Karan Bhatelia: A very warm afternoon ladies and gentlemen. We welcome you all to the Century Plywoods India Limited Q2 FY21 earnings concall hosted by Asian Market Securities. From the management side, we have Mr. Sanjay Agarwal - Managing Director & CEO, Mr. Keshav Bhajanka - Executive Director, Ms. Nikita Bansal - Executive Director and Mr. Arun Kumar Julasaria - CFO and Mr. Abhishek Rathi - Deputy General Manager. I would request Mr. Sanjay Agarwal to take us through an overview of quarterly numbers and then we can open the floor for the question and answer session. Over to you, sir.

Sanjay Agarwal: Good afternoon friends. I, Sanjay Agarwal, MD & CEO of the Company, along with Mr Keshav Bhajanka, Executive Director, Ms Nikita Bansal, Executive Director and, Mr. Arun Julasaria, CFO of the Company have joined together in welcoming you to the second quarter FY21 results call of Century Plyboards (India) Limited.

Our earlier estimates were to achieve back normal or near to normal performance in the last quarter of FY21, but the force and robustness of Indian economy has really pushed the performance of most industries to near normal in the month of September itself. I am happy to present to you that CenturyPly in current quarter has achieved 88% of last year Q2. I also want to highlight that September 19 and September 20 were almost equal in topline. Alone plywood sale in the month of September 20 was higher was 6% than that in September 19. What I mean is that the plywood sales is doing better and this trend has done even better in October. I feel proud in informing that October month has been one of the best months in the history of Century Ply.

In Q2, year-on-year growth in MDF is over 20%. Our vision to take the MDF route for growth is proving right. For the first time, I am happy to report de-growth on positive note as plywood has degrown lesser compared to other products in panel segment. You all know that we are already working hard to expand our MDF capacity and once all the variables are finalized, we will be announcing the same. Mr. Keshav Bhajanka has undertaken himself to put up the plant at his earliest. Year-on-year, our operating margins are better in Q2 and PAT is almost flat, even after achieving only 88% of the topline in the quarter.

CenturyPly has always believed in bringing new technology for its customer and this time our production team along with our R&D team under the guidance of our Director, Mr. Ajay Baldawa and other renowned scientist have brought ViroKill technology. This treatment is best on nano technology and it is absolutely safe for human and environment. Aggressive decisions

in R&D and more aggressive decisions in popularizing it through media have resulted in better consumer preference of our product. We will constantly introduce other technologies and features in coming year to keep the consumer benefiting and the market budging.

Our total debt was 189 crores in March 20 which increased to 243.5 crores in June 20. I am pleased to report that the same debt as on 30th of September has come down only to 85 crores including both long-term and short-term debt. All our ratios which were distorted due to COVID situation are now at its best, even better than pre-COVID level. We have seen that Indian economy bounces back strongly after every such depression. We again expect our economy to perform very strongly for next 2 to 3 years at least. Even the real estate sector is showing signs of recovery. We believe the whole history is about sustenance. If one can sustain and keep kicking in the long bad time, they will certainly do better when the good times come. I am also proud that CenturyPly holds the highest possible standards of corporate governance which gives us the internal sustenance power to fight any war and win it. With this remark, I hand over to CFO, Mr. Arun Julasaria to take you through the key financial figures post which we are open for your queries. Thank you.

Arun Julasaria:

Thank you, sir. Good afternoon ladies and gentlemen. First of all, I will like to mention customer 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. Results for the quarter along with detailed analysis is already mailed to you and also posted on the stock exchange and company websites. Assuming that you have gone through that, I will not take much of your time and take you through only basic numbers and macros.

Results for Q1 were adversely impacted due to COVID-19 pandemic and consequent nationwide lockdowns; however, as informed in Q1 call, we look Q2 with optimism. The recovery in Q2 was better, faster and swifter than what we expected. Blended revenue for Q2 is almost 88% of revenue corresponding Q2 in last year with improved levels of EBITDA and profitability. All business segments have done well and MDF segment has done exceptionally well.

Total revenue for the quarter was Rs. 519.8 crores against 589.3 crores last year. Overall EBITDA without considering exceptional items was 16.8% against 16.4% corresponding last quarter and 15.6% for the whole of FY20. Profit after tax for Q2 is Rs. 51.4 crores against 52.1 crores in Q2 last year, so almost flattish. On balance sheet side, all working capital parameters are now normal and working capital cycle is again pegged at normal level of 2.3 months. As informed by MD sir, we have considerably reduced our debt level. I would like to add to that now our average cost of borrowing is near about 2% per annum.

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

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Firstly, in terms of plywood, heartening to hear these comments from you, just wanted to understand is the real estate is also kind of picking up as well, would we look to increase our outlook for plywood business in the second half of the year and also you spoke about sustainability, can you tell us how long can this actually sustain because you are on one side also seeing good growth in MDF as well, so just your thoughts on this part?

Sanjay Agarwal: I think there are two reasons basically for the plywood performance, one is that pent-up demand which I think is proving true for most of the industries. The second one which is much more important and which one is actually long lasting probably for us, ViroKill technology and its media popularization. So because of this, CenturyPly brand has really got a boost and we are finding that brand for CenturyPly is now much more than most other brands. You can compare the numbers with others yourself. Going ahead, I believe that this technology and our media plan will bring CenturyPly and keep CenturyPly at the top of people's mind and safety is important to everybody. So I believe that going ahead the numbers should be good, but yes, let the time pass and let the actual performance prove it for us. You asked something for MDF also?

Prashant Kutty: Yes, I asked MDF, before that on the plywood part, sir you said that ViroKill obviously that has come up, I believe it is a premium product itself, so are there any targets over here in terms of any 1 or 2 years, what kind of scale you want to achieve in this particular segment?

Sanjay Agarwal: Very friendly, I am little cautious at this juncture. Yes, we have very big plans and we have very good numbers in our mind, but then I will not like to promise at this juncture, but yes, going ahead we know that yes, the situation is going to change and our numbers are going to do better. That much only I can tell at this moment as far as plywood is concerned.

Prashant Kutty: Just two more questions from my end, firstly is on the Laminate business, what really went wrong and how is that trending up in the month of October, if you could just speak on that part and secondly is on the MDF business, you said that you are almost in process of finalizing the MDF capacity addition, I wanted to ask the current capacity can go out and how long is one part which I wanted to ask, that is one part and secondly, on this, on MDF, UP or is it the existing plant? What is the plan on that?

Sanjay Agarwal: As far as MDF is concerned, MDF is the first thing I think what has happened the government of India is now working very hard and it has actually created some problems to import a furniture in the country, so that is why the readymade furniture market in India from Indian producers is really booming. So the demand of MDF and Particle Board has improved. So similarly we increased prices in Particle Board, I don't think we have informed that or we have informed it, I don't remember, but yes, we have increased prices of Particle Board and we probably will be increasing prices of MDF also, we are watching the market and will be increasing prices of MDF also. The demand has improved because the readymade furniture market is improving and it is now going to improve for long term because the government of India has identified furniture as the segment where they want India to become the powerhouse of the world. So government thinks that India can become a major exporter of readymade furniture. So that is part of the MDF

business and its future, but your second question regarding the location of the unit and all, I will request Keshav to take that question actually.

Keshav Bhajanka: There are two parts when it comes to the question and when I come to the location of course the realization is very important. Secondly, the transportation cost considering the fact that MDF is very low wage product or very high wage relative to transportation cost product. We are exploring between two locations, Sitapura as you know has its own set of limitation, but we have also identified a location in the South which we are actively pursuing. By December, we should have a clear cut decision as to where we will be proceeding with the plant. With regards to Laminate, Laminate as a product category always follows plywood in terms of demand. There is a lag because first, plywood will be used and then on top of that laminate or any other decorative surface is normally used. So October was good month and our recovery has been strong. I think month after month, we have grown and I think October is very good benchmark to show that going forward this quarter, we should be performing substantially better in Laminate category as well.

Prashant Kuttu: And just one bit, any change in the CAPEX if the location changes in South?

Keshav Bhajanka: And if we go for a plant in the South, more likely we will go only in the MDF capacity. Here we go for only an MDF capacity without the fungible Particle Board aspect. The CAPEX will reduce. I think we will be looking at a CAPEX of close to 350 crores if we look at the line in the South.

Moderator: Thank you. Next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Just couple of question from my end, firstly on your average cost of capital has come down significantly, so would like to know what is your foreign debt at this point of time and what is the average cost of debt for your working capital as well as term loan?

Keshav Bhajanka: Right now, our borrowing is only in two forms, for working capital we have borrowed packing credit, which after taking subvention is around 2% per annum and we have also borrowed ECB which is less than 2%, so we have got only 2 fund-based borrowing, both are either 2% or less than 2% per annum.

Sneha Talreja: Sir, the average cost of debt that we have seen or the interest cost that we have seen, you think it is sustainable for the year like this kind of...?

Keshav Bhajanka: Of course, we are not going to borrow anymore at higher rate.

Sneha Talreja: And my second question was regarding your Laminates division, just few more clarity, one thing you said is it comes with a lag, you said definitely you have seen pickup happening from October, so can we get the growth number of October or the de-growth for October month for

only your Laminate business and what was your Q2 mix of exports as well as domestic for Laminate?

Keshav Bhajanka: In Q2, our export-domestic ratio was pretty much consistent with what we have been doing before and as far as the October figure is concerned, we had close to 10% growth over October last year.

Sneha Talreja: We have already started seeing growth even in your laminate division?

Keshav Bhajanka: Yes, we have.

Snehah Talreja: Just for my understand, I won't have the previous figures, so did you see exports to be a growth number in Q2 or was it the domestic which impacted the growth more in the Laminates division?

Keshav Bhajanka: The domestic impacted more, the domestic degrowth was higher. The degrowth in export was substantially lower.

Sneha Talreja: So both were de-growth, but export's de-growth was lower than that.

Keshav Bhajanka: Yes.

Sneha Talreja: And sir, this is just last question from my end, just looking at the run rate of what we have been achieving, so last quarter you gave the guidance that you would be kind of looking at 100% of sales across your divisions by around Q4, but given that we have already started seeing growth, let us say, in the month of September as well as October, is there any revised point of view that you would like to give?

Sanjay Agarwal: We would love to do it and I think yes, we are reaching there, but people are talking about the second wave or third wave of this corona you never know. But we still think that yes, the fourth quarter absolutely will be there or may be better than last year and we are keeping our finger crossed for the third quarter.

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

Madhav Marda: My question was on the MDF, the industry as a whole. Just any updated thoughts that you'll have on the demand-supply dynamics for MDF? And especially on the supply side, how do you think the competition on the supply side evolves because it's a fairly nascent industry. But if we become an export powerhouse for readymade furniture, this industry could be multi x to what it is today. So just how do you think this evolves in the years to come?

Sanjay Agarwal: Our Chairman has spoken many times that today, probably in India, we make about 8 million cubic meter. About a million cubic meter is installed capacity in India right now, which we

expect in next 5 years to go to maybe about 4 million to 5 million cubic meter. And with the policy of the government focusing on furniture as one of the items which India will export, India will replace China in the world. And we are already seeing the results because the furniture import has been made costly. And so more and more Indian-made furniture is being sold in India. So yes, furniture is the product for future. And our expansion, yes, we are, I think, as I spoke about it, and we will be there.

Madhav Marda: Understood. Now sir, I understand the growth aspect. I was asking that like if any new player wants to come because of the industry goes from 1 million to 5 million, that's 5x in 5 years, one would expect that more players would like to enter or they would like to become a larger company. So how do you think the competition evolved? What's the barrier to entry? That's just something I'm trying to understand for the MDF because it looks very promising.

Sanjay Agarwal: There are many states which do not allow, number one, the entry. Number two, because you see, we are into this industry, we know the industry so well. So for anybody else, there have been people who have tried earlier. And I think, if I'm not wrong, none of them have succeeded till date, actually. So yes, they are welcome to come, and they are welcome to compete. There's no problem. Nobody will stop them. But the question is only, number one, the investment. The investment is so high because the investment and the turnover are typically 1:1 or 1.1:1.2. So that is one issue there. And the second issue is the credit in the market. So you have to understand the market first and how can you extend the credit in the market. So I don't think that many new players or outsiders will come. But yes, there are people in the timber industry, plywood industry, laminate industry, they are getting in and new capacities will come. See, we need to wait and watch. All these things in every industry has happened, and we will see the game happening in front of us.

Madhav Marda: Just one last follow-up. The new people who tried to enter but did not succeed, any reason, like what are the challenges that they faced in trying to scale in the business?

Sanjay Agarwal: There's no point in getting into the history.

Madhav Marda: Yes, sir. But history teaches us a lot.

Sanjay Agarwal: I know. One should know the history. We all know, but I don't think this time is there right now to get into the history. We have to speak to our business right now.

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

Nehal Shah: Congratulations, sir, for a very good set of numbers. And more importantly, on the balance sheet, I think you've done a remarkable job. Sir, a key question on plywood. Now while our growth has been pretty much very strong, like decline has been much less than what we projected for, and that's largely to do with pent-up demand, you also said ViroKill technology obviously had

led to a strong boost in sales. But frankly, sir, what kind of benefit ViroKill or even Theory of Constraints or even salesforce automation, all 3 put together, what has been the impact on our plywood efficiencies and plywood volumes? If you can just quantify or give us a color as to what is happening in each of these 3 tests which you have taken, which is absolutely different to what the industry has done over the years?

Nikita Bansal:

So I would like to take this question. So with respect to ViroKill, so in the past, plywood is a type of a commodity where bringing in new technology or bringing a new customer benefit is very difficult. So the last time we were actually able to do something was when we came up with the borer- and termite-proof plywood, and that's how Century became Century. But since then, this was the first time we came up with the innovation where customer is right now very scared because of the virus in the air etc. everything. Customer is scared. So we try to solve a customer problem. So because of that, there is definitely a very big impact on our sales. We are even seeing, compared to all competition, big, small, we are doing much, much better. Whether it be Q2, whether it be October, we've done far better than them. And I think that is solely due to ViroKill. And definitely, see, any change within the company takes time. So the salesforce automation that we've done, we actually started this in June. But now, honestly, since the last one month, people have really started moving around and traveling. It's now when we are actually seeing the effects of salesforce automation coming. I think the full effect of this will take probably in 2 more quarters. I think by the year-end, we are expecting the effect to be far more visible. But right now, the effect is small. It's there, but not 100% due to salesforce automation. And what was your third change that you were talking about?

Nehal Shah:

The Theory of Constraints.

Nikita Bansal:

So Theory of Constraints, honestly, if we did not implement Theory of Constraints, we would have not been able to supply the material we've been able to do with the type of demand we've had in October, September and August. We would have not been able to do because you're very much aware that there was a huge worker problem. Labor was not returning. But because we had stock maintained not only at branch level, we had stocked maintained at factory level, even this month, we will be able to supply the demand that we are facing despite festivals and all the closures in between of various dates because of Theory of Constraints. So Theory of Constraints has helped us maintain our supply throughout the year.

Nehal Shah:

And how many branches have we put on this Theory of Constraints so far?

Nikita Bansal:

The entire India. So entire India, plywood, laminates is on Theory of Constraints.

Moderator:

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

Sonaal Kohli:

Sir, I have 3 questions for you. You said that your demand both in September and October has improved, and October has been the best month. From where are you getting the growth? Is it

from the top 6, 7, 8 cities? Or is it a higher growth from the smaller cities? Once you answer this, I'll ask you my next 2 questions.

Nikita Bansal: So the thing is the growth has come from across India. As we've seen where the cases are coming down, the growth is coming from cities as well, as well as some up countries. So I would not be able to say that it is specifically from the top 6 cities. It is across India. We are seeing sort of a pent-up demand, which was there. And suddenly, everyone is wanting to renovate just before Diwali or before a second boom comes. Before that, they want to renovate and shift. So we are seeing that type of a demand coming. So it's across India.

Sonaal Kohli: Secondly, you, in fact, half answered that question. How can you say that this is largely pent-up demand? Or there is something structural which is happening, which gives you confidence not from a next quarter's perspective, but from a next 1-year perspective? Because pent-up demand should be more or less over in this quarter or at best in the March quarter, if it's led by a pent-up demand. So is there anything which you are tracking? Or can one say with confidence what it is? Or it's too early for me to ask you this question? What are the management thoughts about it? Secondly, as far as your MDF plant is concerned, I'm sorry if you have said this already. Where are you planning to put it? From what I recall, you had earlier plans for Uttar Pradesh, and Punjab was a backup plan. But I heard something about putting up capacity in South India. So I just wanted to clarify.

Nikita Bansal: So the MDF question, Keshav will take up. Just I'll answer the first part of your question. So currently, the reason why we are saying it's a pent-up demand is because there has definitely been a sudden increase in September, October. But like I said, because we are providing an innovative product of ViroKill as well as we are on air from August, September, October, and we plan to be on air through the year, we are definitely getting more sales than our competition. So we want to be cautious when we say that whether this type of demand will continue on or not because we don't know how this virus will behave. Most countries are getting a second wave. So in case that happens, right now for us to project the rest of the year becomes very difficult. But we are definitely looking at this with a very positive outlook because had it just been due to pent-up demand, we would have done similar numbers. But we are doing more. So definitely, this growth is there to last for us, but we are keeping our fingers crossed.

Keshav Bhajanka: So just to add on to that point, you see, the gap between us and competition is increasing month-on-month. So from July, that may have been similar. August for us was better. September for us was further better. And in October, we increased the distance further. So that gives us some confidence that even going forward, we are going to be doing better than most in the industry. Regarding your second question, for MDF, you see, the dynamics in the MDF market, the reason for setting it up in Uttar Pradesh was cheap timber availability and the fact that transportation costs to other parts in the country other than North would have been cheaper. Now the South has a decent raw material price. The price of timber in the South is more or less similar or slightly higher than in the state of Uttar Pradesh, and the transportation dynamic can be further reduced.

Alongside this, antidumping duty has been levied, which is a safeguard of costs. I think going forward, we are actively and aggressively pursuing South, especially considering the license issue that has taken place in Uttar Pradesh.

Sonaal Kohli:

Sir, just a follow-up. Since you are looking at South, there are a lot of capacities in South and some new big, large capacities. Bids should be coming up from another listed player. That seems to be in distress considering the market cap and high amount of debt. Aren't those kind of capacities available? And couldn't you shorten your curve by buying out those kind of capacities? And if a large amount of capacities are already available in surplus in South, what gives you confidence that while we did an extraordinary job in North India and took market share from established players, the excess capacity in South is way more than what perhaps what was in North and further new capacities are coming up. So in that light, I'm sure the management must have done its own calculations of these. But some perspective would really be helpful.

Keshav Bhajanka:

You answered your own question with regards to North. When we came in, it was the exact same scenario. What people said was, there are 2 established players, and they have substantial capacity. You being a new entrant, you're going to have to sell at a discount. You will not be able to sell material. But just setting up a capacity and utilizing that capacity in MDF are 2 completely different subjects. Time has proven this, and it has been repeated again and again. So the operational efficiency that we bring to the table is far in excess of anybody else in the industry that's come in, and that is going to aid us in the South as well. When you're talking about large capacities coming in, there's one capacity that is coming in, just one. And as you have already mentioned, it is a listed player. And we're all aware of which company it is. But having said that, there aren't other capacities that are in the market. Definitely, by acquiring the capacity, you can shorten your time horizon. But the capacity should be available as well. I don't think that capacity is going to be available under any stretch of the imagination. So we are looking aggressively at the South. And I think the way we have performed in the North, perhaps we'll be able to reach full capacity utilization faster in the South. The industry is growing by 20% plus. So that is going to be a big advantage going forward.

Sonaal Kohli:

And sir, lastly, with this virus technology, have you hiked your prices? Is it getting you better premium in plywood industry?

Keshav Bhajanka:

So Century Plywood has consciously taken the decision that we will not increase the price of our product by a single rupee. We are bearing the cost of the ViroKill technology. The ViroKill technology has been used in all our product categories that are manufactured in-house in plywood and in laminates. And despite additional cost element, you'll see our margins are better. Considering operational leverage, our margins are actually far better. So we are getting economies of scale. Raw material costs have come down. And through ViroKill, you will see our sales growing, definitely leading to higher margin going forward.

Moderator:

Thank you. Next question is from the line of Achal Lohade from JM Financial. Please go ahead.

- Achal Lohade:** Just to extend the question on the ViroKill. Is it possible for you to share the mix for the September quarter or October month from ViroKill brand?
- Keshav Bhajanka:** Well, there is no ViroKill brand. So ViroKill is a technology that has been used on CenturyPly products, Century Club Prime, Century PS, so on and so forth, have ViroKill technology. So it is not a separate product category. Every single sheet of Century, 1 mm laminates and pointed laminates has ViroKill technology. So there's actually no separate product range.
- Achal Lohade:** Right. Possible to give a mix, like what kind of mix is already we are seeing in the month of October from this one?
- Nikita Bansal:** So are you talking about Sainik versus Century because we are not being able to understand your question really clearly.
- Achal Lohade:** So this ViroKill product mix, is that like an entire range of products? Because in the month of October, it's 100%.
- Nikita Bansal:** Yes. So ViroKill is a technology that we have brought in all our products. So it's not a separate brand that we have come up with. It's a technology that we are putting in all our products that is manufactured in Century.
- Achal Lohade:** Got it. Just an extension of the MDF question earlier. What is driving this, the alternative to South? Is it to do with the delays in approvals for the greenfield plant in UP or it's more to do with the cost and the market situation where you see more demand from South?
- Keshav Bhajanka:** It is actually a combination of both. You see, South was always going to be a high-growth area for us because we are today predominantly present in the North, transportation cost does not allow us to sell a lot in the South. But the realization in the South also is slightly lower than the North. But the demand in the South is traditionally very strong, and it is growing at a rapid pace. So the license delay in Uttar Pradesh has definitely played a role. Uttar Pradesh was our first choice. But now looking at alternatives, South has turned out to be a very good, profitable, viable alternative. So I think going forward, the decision of the South unit will be taken on two or three fronts. One is the freight cost, the projected sales mix and on the overall ease of setting up the plant. The South looks like a good bet.
- Achal Lohade:** Understood. You mentioned about the antidumping duties. Can you elaborate a bit? I believe the government was considering the antidumping duty. But has it been finalized, has it been announced, in your opinion?
- Keshav Bhajanka:** In principle, the government has taken it under consideration. I think it is only a matter of time.
- Achal Lohade:** And this is more on the thin MDF, where the price difference is large, if I understand it correctly?

- Keshav Bhajanka:** Yes.
- Achal Lohade:** Understood. And can you talk a little bit about the cost savings measures? Like I see the other expenses and the employee costs are down on a Y-o-Y basis. So can you elaborate a little bit as to how much of this is sustainable? And I am sure this has also helped in terms of the margins at the segmental level.
- Keshav Bhajanka:** See, we have not cut salary by a single rupee. We had cut salary in Q2, but we reversed that entire decision due to performance. We said if the company performs at 80% plus, then we will be reinstating salary at exactly what it was before. So I don't think that there is any cost element where you will see an increase going forward because we have already factored that in. All the savings that we have achieved are a result of a lot of introspection, a lot of hard work during the course of the lockdown. And I think they are paying dividends now.
- Achal Lohade:** Okay. Just to clarify, I see that the employee cost is down 14% Y-o-Y. Let's say, in absolute terms, it's about Rs. 75 crores, Rs. 76 crores. Is that the run rate we would kind of look at for next few quarters? Or there is the adjustment, as you said, about reversal, something around there?
- Keshav Bhajanka:** For the remainder of the year the reversal has already taken place, it has already been accounted for in the numbers. So going forward, for the rest of the year, you will see a similar run rate.
- Achal Lohade:** Understood. And with respect to plywood, can you help us understand what is the mix of premium and Sainik?
- Nikita Bansal:** So for competition reasons, we don't want to give out economy segment numbers. However, by volume, they are in the range of 35% to 40%. And value, it is in the range of 25% to 30%. I don't want to repeat that number.
- Achal Lohade:** Okay. 35% to 40% for volume and 25% odd of revenue. Is that right?
- Nikita Bansal:** Yes.
- Achal Lohade:** And the mix has remained similar or has that changed? Like, are you seeing a growth in a non-premium more than the premium?
- Nikita Bansal:** See, definitely, if you know about the plywood market, it's more of a V-shaped, like a belly in the middle. So we are right now trying to grow in the belly segment through Sainik. So definitely, the growth will always be higher in Sainik segment, because the volume that you have to play in or gain market share is, in the Century segment, it's always going to be lower, because we are already 30% of the branded plus-100 segment. So I think going forward also, the growth definitely in Sainik is going to be higher. But that does not mean that we are not growing as much as the market is growing in my Century segment.

- Achal Lohade:** Understood. Just if you could comment on the segment margins. I mean, I see that the margins are pretty good. You commented about the revenue part. But just on the margins front, how do we look at the margins for the next two quarters or remainder of the year?
- Keshav Bhajanka:** You see, whatever margins we are seeing right now, they are without operating leverage. As you know, we have had degrowth last quarter. So as we improve our performance between Q3 and Q4, I would assume that margins would be on the up.
- Achal Lohade:** And just last question, if I may, with respect to utilization for month of October, if you could talk about ply, laminate and MDF?
- Keshav Bhajanka:** Our utilizations were better than in Q2 right across. Our utilizations are better than October last year as well.
- Achal Lohade:** Would you be able to give out the number? Like I would imagine MDF will be already at 100%. Plywood is...
- Keshav Bhajanka:** I think it would be better if you speak to the CFO later.
- Moderator:** Thank you. The next question is from the line of Venkat Samala from Tata Asset Management. Please go ahead.
- Venkat Samala:** Congratulations on a very good set of numbers. Sir, just wanted to understand that, so in MDF we see a very good traction, right. But sequentially, plywood is doing well and, obviously, there could be some hesitation initially for customers to allow the carpenters into their home. And they could go for readymade furniture, which could drive traction in the MDF segment. But as we are witnessing a good traction in plywood, do we still continue to witness sequential growth in MDF segment as well?
- Sanjay Agarwal:** Okay. So you see, most of the furniture being made are in the new houses, where actually the owner is not living. So he just goes and opens probably through somebody. And once they are in, and the carpenter comes and works and goes. We actually cannot even keep track of the one room or half room or one sofa or one bed, actually it is very difficult. So the most of the plywood is actually consumed in new flats where nobody lives. So that is not a question of whether it is creating a problem while you are making the furniture. So that problem is not there at all. And there are two kinds of buyers, you see, those actually who are making their own house where they want to live. Suppose you are buying a home, suppose you are in Mumbai and you are living in Mumbai, and you bought a flat. So now you want to do your flat very well because you want to live in this flat for the next 15, 20, 30 years. But suppose you are transferred for some time to Bangalore, or you are a very young man coming out of IIM or something and you have got a placement in, say, Lucknow, so what you do? You are living in that house for maybe next two years' time, so then why will you invest into costly furniture? So that's why probably you will buy a readymade goods, which will last maybe four, five years, so it's good for you. But I

think there are two kinds of buyers actually, those who really want to make their furniture and stay with it for a long time. So plywood will also grow and similarly the other readymade furniture will grow, because the government is now trying that import of furniture should be stopped or maybe reduced to a great extent, number one. And number two, government of India wants India to become a powerhouse of export of furniture from India to the world. So that's why the MDF and the particle board will grow. So we believe that actually even plywood will grow, even MDF will grow. And if plywood grows, then the veneers or the laminates will also grow. That industry are together, that industry will grow together.

Keshav Bhajanka: Just to add on one point. You see, the per capita consumption of wood panel related products in India is 2 square feet per individual. Now that is negligible if you compare it to countries like Japan, where it is in excess of 100. But even if you look at China, the consumption is within 40 square feet to 50 square feet. So you can see that it is 125th country with a similar population. Going forward, the consumption for wood panel products in the long-term in India is going to increase at a drastic pace. This will be true for both plywood and for MDF. MDF may be growing faster due to a lower base, but I think both segments will see a good growth.

Venkat Samala: Right. So to answer my question, you are witnessing sequential growth in both, right? I mean, even when we are witnessing year-on-year growth in ply, there is no impact as such in the growth trajectory for MDF, right?

Keshav Bhajanka: No.

Venkat Samala: Sure, sir. That was very helpful. And just a follow-up. So you mentioned that the government is trying to ensure that the readymade furniture industry for our country improves. So have they taken any measure as such?

Keshav Bhajanka: The readymade furniture industry is a priority area for the government. There are a number of high-level committees which have asked us for a lot of representation on how to reduce the cost of certain products in India, including MDF and particle board, how to generate sufficient economies of scale. So they have begun work in a very, very focused manner, I would say, for the first time, at least, in my career I am seeing this sort of an emphasis having in place. And I think sooner rather than later, it is going to pay rich dividends. Sir, and we have made about three presentations already on different product items. Sorry, please continue.

Venkat Samala: Right. That was helpful. And if you could highlight what was the price hike which you have taken in the particle board?

Sanjay Agarwal: 3% is the price hike we have taken.

Venkat Samala: Sure, sir. And what could be the likely quantum for price hike in MDF?

Sanjay Agarwal: Similar. We have not yet decided. We are working on it, we are testing the market. Similar, because gone are the days when we used to take a price hike of 5%, 6% at a time in plywood. So similar are the cases in MDF and particle board. So we take every step very cautiously.

Venkat Samala: Right. Sir, and my understanding was... please go ahead.

Sanjay Agarwal: We are testing the market, slowly, slowly. We are seeing what is the pull, how people are behaving. And then we have started offering a little bit of a higher price to somebody, we are seeing whether he places an order or not. So when we now ask him 3%, then he agrees for 2%, so we start doing some business at 2% or 1.5%. So slowly we will go to 3% within next 15 days or so. This is the way it always happens here.

Venkat Samala: Sure, sir. Right. And my understanding was that you don't get any brand premium as such in the MDF segment. So is this largely to do with the demand-supply tightness that you are witnessing in the North market, I mean, which is giving you that leverage to increase the prices?

Sanjay Agarwal: So MDF has got actually two categories. One is the regular MDF, yes, there, there is not much of a brand play. Yes, there is a brand play. You see, there are two types of small players, there are smaller players in the North, you know who have put up a 200 cubic meter or 150 cubic meter plant. So they sell about 8% to 10% cheaper than us. So there is a brand difference because it is a Century or it is a Green, so there is a brand difference of 8% to 10%. But the other area is we have a premium segment which we call Premium Plus. So that is a much higher density MDF, and which can be used even in a place where there is water, so it's waterproof also. That area actually commands price difference. Their branding also matters. So today we sell a lot of material, I should say, 20% of our material is the branded materials. And there, we command our price. Our prices are highest in the country, even better than any of our competitors actually. And that is one area whether probably if we have more capacity, right now we don't have capacity. But if we have more capacity, we will probably go for advertising and make that brand much bigger and bigger, and maybe shift over 30%, 40% production to that branded MDF. There is a possibility.

Venkat Samala: Right. Okay. So it's a mix of both. I mean, now the demand is increasing, and the supply constraint is starting to go up. And then definitely there is the brand element as well that helps them. Right. And do you think cycle of price hikes you are able to sort of pass this price hike in this particular segment? Or is it too early to call that out?

Sanjay Agarwal: We could not hear you completely. Can you repeat the question?

Venkat Samala: Yes. So what I just wanted to know was that if you are able to pass on this price hike, do you think that this could trigger a cycle of price hikes from here on? Because that was something that did not happen in this particular segment, right. So do you think that, that is possible? Or it's still too early to call anything out?

- Sanjay Agarwal:** You see, it all depends. There is no new capacity coming in, in the very near future, except one plant in the South. So I feel that about next two years' time, before any other plant will come in. So for the next two years, I believe that, yes, the price hikes will keep on coming in the small, small spurts. Right now we are contemplating a 3%, but maybe we are even accepting 1.5% increase from some buyer or 2% increase from some buyer and selling some quantity. And say, in the next 15 days, we will achieve a 3% increase, for 20 days, we will achieve this. Maybe after a month or so, two months or so when this gets into the market and if the pull continues, we will still again try. You see, that is the job of a manufacturer, isn't it? And we don't see any capacity coming in for next two years, except that one plant in South. When that plant comes in, yes, for the next four, five, six months, the increases will not happen. Still, I don't see there a competition in North actually, they would not be able to compete and come and sell in the North. So the competition, whatever will come, will come in the South, actually.
- Moderator:** Thank you. The next question is from the line of Abhishek from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Sir, what's the lead time for this MDF plant which you are talking about in South? How long will you take to put it up once you commence the construction?
- Sanjay Agarwal:** You see, once we commence the construction, it's a different story, then maybe one year. But when commencing the construction, you require a line. So I think Keshav will be able to tell you better.
- Keshav Bhajanka:** You see, it depends on two or three factors. And the first is the machinery supplier. Because of the challenges today with regards to movement of people, because getting the machinery is not an issue, but you need to have the technical team here to install the machinery and then to start the trial production. Earlier, we are envisioning that within 14 months we should be able to come up with new capacity once we have the land in hand. But today, I think that we should look at a longer horizon of maybe 16 to 18 months.
- Abhishek Ghosh:** So with land, it should be at least two years, from the time you finalize?
- Keshav Bhajanka:** With land, I would say a year now. After land is acquired, in one and a half years, we should be able to get the plant up and running.
- Abhishek Ghosh:** And land will take about four to five months to six months for you to kind of procure and finalize.
- Keshav Bhajanka:** Land is a subjective topic. Land sometimes can take a week also, sometimes, like it can take three to four months also.
- Abhishek Ghosh:** Okay. And have you seen the imports which were coming in from Southeast and all for MDF, have you seen any disruption there because of the overall MDF production in those countries not happening? Anything that we have seen along those lines?

Sanjay Agarwal: You see, the demand for MDF has increased in China itself first. China was a good exporter, but right now we are not exporting much of their quantity. So that is the number one reason for a pressure on the other plants in, say, Indonesia or Malaysia and Thailand and New Zealand. So that is one reason about the prices have increased by about \$15, \$20 per cubic meter. And the second reason is, you must know that in all products, the shipping freight has gone through the roof. So only the cost per cubic meter, the sea freight has increased by \$20 to \$25, even \$30 per cubic meter. So that is another reason the import cost is increasing. But all those actually will be landed in India, will be effective, say, by December. Because the prices have increased but still the old rate goods that are coming in, and all those things are happening. So the real price increase for import in the market will happen by December.

Abhishek Ghosh: Okay. And sir, just one last question of mine. The plywood segment, similarly, import or procurement of timber has been an issue. And so have unorganized seen some amount of disruption? And hence, have you gained market share, is that the right kind of thing?

Nikita Bansal: Due to the unorganized sector, it is definitely due to labor issues as well as export issues. It is definitely taking time to restart, but that was the same time it was taking for recovery. So I would not say that we have been able to really take market share. And honestly, the plywood segment, the data is not, like, you don't get data on a month-to-month basis as to what is the market share. There is no such organized data available. It's a little early to comment. But yes, we are doing very well, is what I could say. Whether it is coming from organized sector or unorganized, it's difficult to comment right now.

Moderator: Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund. Please go ahead.

Hrishikesh Bhagat: So two questions from my side. Firstly, the margins that we are showing this quarter, it accounts for a large part of promotional spend that we had done for ViroKill, right? Or it is deferred or anything like that?

Keshav Bhajanka: It accounts for this time.

Hrishikesh Bhagat: Okay. And I think one of the comment was made that the implementation of TOC did help us to improve the availability despite the surge in demand that was seen during, say, September and October. And I think what I understand is that the TOC has scaled down, the implementation of scaled down because the results were not up to our expectation. So any rethought or rework on that front?

Keshav Bhajanka: So I think we need to make a difference here. There are two parts to the TOC implementation, one is with regards to the supply chain management, and the other is with regard to the go-to-market and the overall sales strategy. With regards to go-to-market and overall sales strategy, yes, we had slowed down TOC. We had taken seven branches, and we had said that once we establish it completely in these seven branches, only then shall we roll it out. With regards to

supply chain management, we had rolled this out pan-India, and that exercise has been extremely successful, and it continues even today.

Hrishikesh Bhagat: Okay. And just last question from my end. I understand that there is this alternative location we are working in South. But just in any case, say, hypothetically, in six to nine months down the line, assuming this Sitapur issue gets resolved and if there's no CAPEX started in South or probably some degree of advanced CAPEX has happened in South, will we still look at Sitapur also simultaneously, considering the tightness in demand and supply in northern market in MDF?

Keshav Bhajanka: The Chairman has categorically stated repeatedly that we expect or envisage that in the next five years we will have five production facilities for MDF. Rather, we will have 5x today's current production facility. So while I cannot comment immediately on whether we will do Sitapur and the South, or whether we will do both simultaneously, or whether we will do one at a six month lag, we definitely are exploring. Like right now, it is going to be the first of maybe two or three plants coming up over the course of the next few years. At this point in time, we are only looking at the South plant. But going forward, based on demand, 100%, we will keep on evaluating and exploring where we should set up capacity to reduce our freight costs and to ensure that we have the lowest overall raw material pricing.

Moderator: Thank you. Next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: So you talked about you gaining market share in the last six months. Can you just pinpoint like in terms of how -- what has been the market share in the four segments? How much we have gained so far?

Keshav Bhajanka: You see, it's very difficult to give you any sort of exact numbers on the same because, as you know, our industry is very unorganized. But I would say that if you look at us vis-à-vis competition, with regards to any division, we would have a far higher capacity utilization, and we would have a far lower degrowth. So I think that gives you a semblance of the fact that, yes, we have gained market share.

Kunal Lakhan: Sure. My second question is on, again, in your opening remarks you mentioned that Indian Government is focusing on encouraging the domestic furniture manufacturing industry. Just wanted to broadly understand our sales mix in terms of retail and institutional or rather B2B customers. And what will be our marketing strategy going ahead to maybe taking advantage of such a surge in manufacturing in India?

Sanjay Agarwal: You are talking about MDF?

Kunal Lakhan: I am talking about all the segments actually, MDF and plywood, yes, more specifically.

- Sanjay Agarwal:** Okay. So you see, plywood is not at all going into OEMs or into projects. Plywood is 100% or maybe, say, 95% going to consumers through our retail channels. As far as MDF is concerned, most of the MDF goes through OEMs only. The customer himself does not buy MDF. So these two are absolutely two different markets. So does it explain your point or...?
- Kunal Lakhan:** Sure, sir. That's helpful. But even going ahead, plywood, would we expect plywood also to remain primarily a retail market and not.....
- Sanjay Agarwal:** Yes. Plywood is a retail market, a consumer market product, and it will remain as a consumer product market. Yes, some of the plywood products which are actually, we should say, what do you call the 16 mm?
- Nikita Bansal:** Calibrated.
- Sanjay Agarwal:** Calibrated. So there is a calibrated plywood, 16 mm, which is going in for OEMs a little bit. But just the quantity is very, very little. Otherwise, the OEMs only take either particle board or MDF. And everything goes through OEMs only, whether it goes to the dealers also, from dealers it goes to small OEMs. And we are in touch with all the OEMs across the country through our network actually. And that's how we are able to manage more than 60% of the order through channel is from OEM today.
- Kunal Lakhan:** Sure. That's helpful. And lastly, on the operating margin front. In the MDF segment we have seen some sharp improvement in the margin side, I think probably one of the best margins we have reported on a quarterly basis in MDF segment. This is on account of like operating leverage or high utilization levels? Or is there anything else here?
- Sanjay Agarwal:** I think the story is very simple, it is because of the higher operations and the better utilization of the capacities. And number two, the expenses are a little lesser, you can say, in the spending this time, because the travel and many other expenses are little lesser. But yes, mostly, it is only because of the higher utilization of capacity.
- Kunal Lakhan:** But with the price hike, do you think the margins has a further upside going ahead?
- Sanjay Agarwal:** If we can increase the price, yes.
- Moderator:** Thank you. Next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.
- Siddharth Rajpurohit:** Congratulations on the performance and also on the success of ViroKill technology. Sir, my first question is, is there any constraint in the raw material side of India growth so much in terms of exports that we are talking, sir?
- Sanjay Agarwal:** You are talking about raw material for furniture?

- Siddharth Rajpurohit:** Yes, sir.
- Sanjay Agarwal:** Okay. So raw material for furniture, you see, in India, today, have you heard the news, it was everywhere that India's forest cover had increased by some 16% in last 10 years. Have you heard this news?
- Siddharth Rajpurohit:** Sorry, sir, I missed that.
- Sanjay Agarwal:** You have not heard that news. So you see, India's forest cover is increasing every year. It is because of only one reason; all the agriculturists or kisan are growing plantation timber in their excess land or in the area of the land where there is a joint of two plots, so on those...
- Siddharth Rajpurohit:** Yes, the fence that's in the between of two plots.
- Sanjay Agarwal:** Yes. So on the joints, they are growing these trees. These trees do not take a cost at all, the coolie takes about maybe Rs. 10 to Rs. 15 or Rs. 30 or Rs. 25 is the basic coolie. And after that you don't have to even look after it, in three to four years, it is ready for sale, and it brings him few thousand rupees per tree. So every farmer in the country, whether he is in Kerala or whether he is in Jammu or whether he is in Uttaranchal or in Bengal or in Assam, everyone is now slowly learning, and this plantation is increasing. So the dearth of timber is not there at all. And by the time this revolution of furniture making comes in India, it really grows. By that time, we will have much, much more plantation available. So it is good for the farmers also, you see. They are making this extra money, which is good for the farmers, and it is good for the industry. But right now, I don't see any dearth. But yes, always, there will be some times when there will be a shortage of timber, and there will be always some time when there will be excess of timber. So that's an economic cycle which will go on.
- Siddharth Rajpurohit:** Okay, sir. And sir, if there is no government support, still India has the capability to maintain the growth in the export, which may start?
- Sanjay Agarwal:** I think government has to support. Government has to support. And there are many, many areas which have been identified. And that will require a totally separate session that, yes, what is required from government, but yes.
- Siddharth Rajpurohit:** And lastly, what's the status in Gabon plant, sir?
- Sanjay Agarwal:** On Gabon plant, actually, we have kept it on hold because there is no dearth of face veneer availability. And because of this pandemic also, we delayed it a little bit. Now we are taking it back. In some time, we'll start it. It's almost ready, we are only delaying because once you start then the operational expenses will start. So that's why we were not very keen on starting it as the raw material is available across everywhere. There is no dearth from the raw material, and that is only a raw material supply to CenturyPly. That is the reason we are putting up that plant.

- Moderator:** Thank you. I am taking the next question from the line of Prakash, who is an individual investor. Please go ahead with your question, sir.
- Prakash:** So I have two questions, okay. My first question was what are the plans for the Gabon unit and the new MDF plant in UP, okay? And my second question was, why have we stopped cooperating with one of the credit rating agencies six months back, even as our debt is very low?
- Keshav Bhajanka:** Okay. So let me answer both your questions. Firstly, with regards to Gabon and UP, we have answered the question immediately before it but I will repeat myself again. In Gabon, we are close to completion, and we will begin operations. We have not started because of the environment of the market right now. It does not make sense, it is not viable at this point in time. But going forward, very soon, as the economy starts recovering, we will start Gabon operations. We are contemplating between Uttar Pradesh and the South for a new capacity, and we are doing due deliberations. By December, we should have a decision. Secondly, we did not stop cooperating with any agency. That was, I would say, a mistake on part of the agency. Our CFO will clarify the point.
- Arun Julasaria:** Regarding this rating agency, I would like to clarify that we have withdrawn our arrangement with CRISIL long back. Somehow it remained in their system, and they have uploaded this non-cooperation thing, which they realized later on that this was wrong on their part. And they have already rectified it and put on their site also. We are rated by ICRA only, not by CRISIL.
- Moderator:** Thank you. The next question is from the line of Karan from Asian Market Securities. Please go ahead.
- Karan Bhatelia:** Sir, just one question from my end. How are things shaping up in Laos and Myanmar currently?
- Keshav Bhajanka:** So with regards to Laos, as you know, we have already taken a write-off. We are waiting for the government to reverse this decision, but it does not look very likely at this point in time. So we are in a perpetual wait-and-watch situation. Even though they have made two or three announcements in the recent past, stating that they would allow some quota, etc., etc. Till a time there's no amount of a clear-cut policy, where they will allow the export of veneer, we would not be resuming operations there. Secondly, Myanmar, Myanmar is still operational, and it is supplying us with Gurjan face veneer, which is required for us in all our higher-end segment products. And this will continue for the foreseeable future.
- Karan Bhatelia:** Correct. And currently, what is the pricing differential between the Okoume and Gurjan? Because Gurjan also has corrected in last six months to one year.
- Keshav Bhajanka:** Nikita will just respond to your question.



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- Nikita Bansal:** Yes. Actually, the thing is, there is currently in the market a shortage of Okoume, so the prices of Okoume is rising almost every day. So the difference has come to around less than Rs. 10 per square, yes, it's like a Rs. 10, right now, the difference.
- Keshav Bhajanka:** Yes. This is from my end. Thank you so much for participation. Sir, any closing comments you would like to give?
- Sanjay Agarwal:** Yes. Thank you, friends, for joining us on the call and taking your time looking into our finances and our actions. And hopefully, we will see you next time with more aggression, with better results, with better situation of COVID. And wishing all of you Happy Diwali and a prosperous New Year. Thank you.
- Moderator:** Thank you very much, members of the management. Ladies and gentlemen, on behalf of Asian Market Securities, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.