



## “Century Plyboards India Limited Q4 FY2019 Results Conference Call”

May 28, 2019



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**Moderator:** Good day ladies and gentlemen and welcome to the Century Plyboards India Limited Q4 FY2019 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 for an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ayush Bagla from SBICAP Securities Limited. Thank you and over to you Sir!

**Ayush Bagla:** Thank you Margreth. Good afternoon, everyone, and welcome to the Q4 FY2019 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 today Mr. Sajjan Bhajanka, Chairman; Mr. Sanjay Agarwal, M.D. and CEO; Mr. Keshav Bhajanka and Ms. Nikita Bansal, ED; and Mr. Arun Julasaria, CFO. We will begin the call with the opening remarks from the management and then move to Q&A. Thank you.

**Sajjan Bhajanka:** Yes, good afternoon friends. I am Chairman of the company. Our MD, Sanjay Agarwal, my son Keshav Bhajanka, Nikita and Mr. Arun Julasaria, they are with me to take queries and to brief you for the fourth quarter results and for the annual results. And now I hand over to Mr. Julasaria for a brief introduction.

**Arun Julasaria:** Good afternoon, ladies and gentlemen. First of all, I would like to mention customary disclaimer that this concall is just to discuss company's historical numbers and future outlook. In no way this should be construed an 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. So I will not take much of your time and take you through on the basic numbers and macros.

Comparing whole year results, overall net revenue including other operating income increased from Rs.1967 Crores to Rs.2263 Crores with a growth of over 15%. Out of such 15% growth, 9% growth came from MDF and balance from other businesses. Blended EBITDA margins declined from 15.9% to 13.5%. If we figure out 2.5% decline EBITDA margins it works out to be approximately Rs.54 Crores, while EBITDA in particleboard and others were higher by Rs.3.5 Crores and Rs.4.5 Crores, respectively. The EBITDA in laminate, MDF, ply and CFS were lower by Rs.31 Crores, Rs.15 Crores, Rs.9 Crores and Rs.6 Crores, respectively. EBIT margins were marginally down from 11.8% to 11.3%. PBT was also marginally down from 10.1% to 9.4%.

For Q4 on YOY basis, overall net revenue including other operating income is increased from Rs.544 Crores to Rs.583 Crores with a growth of 7%. Here again, out of 7% growth, 1.4% growth came from MDF and balance from other businesses. Blended EBITDA margins are now 11.4% compared to 15.5%, EBIT is now at 9% compared to 10.4%. PBT now is 7.4% compared to 8.2%.

Also for the financial year 2019, total adverse forex movement was Rs.16.28 Crores as against Rs.6.61 Crores last year. Out of such Rs.16.28 Crores, Rs.9.22 Crores were taken as borrowing cost and balance Rs.7.06 Crores has impacted EBITDA margins. Out of total Rs.16.28 Crores, Rs.9.89 Crores was realized and balance Rs.6.4 Crores is mark-to-market loss. In order to de-risk ourselves from forex adverse movements, we have continuously reduced our foreign exchange exposure, which now is only Rs.109 Crores approximately against Rs.365 Crores approximately last year. Out of total exposure, around 82% was in U.S. dollar and balance was mainly in Euro.

Now coming to segments, while the volume of plywood for the whole year increased by 6% YOY basis, the value growth was 5%. The difference is due to change in product mix. While the whole year EBITDA of ply segment was marginally lower at 13.6% compared to 14.3% last year, the EBITDA for Q4 was substantially lower at 9.7%. The gross margins for Q4 were almost same. The EBITDA was lower because of various sales-related expenditures not evenly incurred throughout the year.

Volume growth in laminate for the whole year was 8%, and value growth was 16%. Major input cost of laminate is imported design paper and crude-based chemicals. Both have sharply gone up in the last four years due to rupee depreciation and upward crude prices. With the introduction of new capacities in market, this increase cost could not be passed on, but now with stable rupee and downward crude prices, profitability will start to crawl back to normal.

For the whole year, MDF was operated at 65% capacity, and for Q4, it operated at 68% capacity. Reduced prices in the market have lowered the realization and profitability in this segment. While we were likely to operate at above 80% capacity in Q4, due to some technical problems, plant had to shutdown for almost 15 days and we could not achieve targeted capacity of 80%. MDF segment has shown significant jump in revenue with growth of 162% for whole year and 17% for Q4 on YOY basis. EBITDA margins for the whole year were 13% against 18% last year. While average price realization compared to last year was down by 10%, EBITDA were down only by 5% because of higher capacity utilization and operational and technical efficiency. We are continuing to hold our dominant

position in MDF market and expect to reach at least 90% capacity utilization in current financial year. We do not expect further price reductions.

Particleboard has performed significantly well and has reached over 100% capacity and desired profit margins. We are looking for introduction of new capacities. Logistic business has faced issues of lower volumes though average realization has increased, lower volume is attributable to new competition.

The net worth of the company stood at Rs.969 Crores as on March 31, 2019. On the debt side, even after taking major capex, company is still very low geared with long-term debt equity ratio nearly 0.18 against 2 accepted by bankers. All other ratios are stable.

With these words, I will pass this conference call for questions and answers. Since promoters of the company are on call, I will request you to focus more on quality questions. Queries relating to numbers can always be made to ourselves, made to me or Mr. Rathi separately. Please go ahead with your questions.

**Moderator:**

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

**Sriram Rajaram:**

So in Q4, I think we had a margin surprise of 9.5% in the plywood segment. I could not hear it properly. So if you could just elaborate on why we have seen a sharp fall in margins despite gross margins moving from 28% to 31% on a sequential basis and my other question is Sir on the core plywood volumes, which has been at 6% for the full year. How do you see this moving forward, I mean, is there a structural trend that we are able to see that on the usage of MDF is probably resulting in lower volumes and I think earlier calls, you have commented on moving into a lower end segment, and thereby, we could have more volumes, although margins would be compromised. So is that strategy on or how do we see this?

**Arun Julasaria:**

Replying to your first part of the question, as I mentioned in my earlier opening remark that EBITDA margins for plywood in Q4 are specifically lower before the certain sales-related expenditures, which are not evenly incurred throughout the year. These expenditures were relating to balanced CSR expenditure, making of some catalogs, samples, etc. So these are all expenditures, in fact, whole year, but they have come this time in Q4 only. Second part of your question will be replied by our M.D., Mr. Agarwal.

**Sanjay Agarwal:**

Would you please repeat the second part again?

- Sriram Rajaram:** No Sir, I just want to understand. Is there a structural trend that we are able to see on account of MDF we have been growing slower in the plywood space and earlier, we had a vision in mind that we probably move down to lower in the plywood segment. That is where the volume growth really comes now. If that is the case, how do we see the volumes going forward? It is still the same, right, I mean, volumes have not gone anywhere?
- Sanjay Agarwal:** Yes. It is okay. Now I understand the question. You see our minds are absolutely clear that MDF is actually replacing the lower strata of the plywood segment and it is doing a wonderful job. I do not think that even one single furniture work or interior work is now done without few pieces of MDF. So MDF has actually entered every household. Every carpenter or a contractor is now using it. So as far as MDF story is concerned, it is good and it is progressing. You see right now, we do not have any material to supply that is the situation actually. Now we let us go to plywood. Our part of the plywood, yes, we expected a much stronger growth. We have been expecting 9%, 10% or 11%, but then yes, we have ended at 6%. So we still expect that yes, it will be better, but very frankly, still, I am not seeing much of a movement in the market maybe because of the elections have just ended or maybe the whole economy. If I see any other company also, I do not think the growths are very robust anywhere else. But our company is absolutely ready in every respect with our capacity, brand, our depth in the market. Our working with the retailers is really increasing in numbers of retailers, but yes, the growth is yet to happen.
- Sriram Rajaram:** So in Q4, what was the volume mix for you in terms of Sainik versus non-Sainik or premium, some number you can give in percentage terms?
- Arun Julasaria:** You give us a moment; meanwhile, you go ahead with a question. We will give you that.
- Sriram Rajaram:** Yes, so basically, Sir, when we are seeing that the MDF is basically disrupting the lower-end plywood market and we ourselves want to focus on the lower end and get more volume, so does not it seems somewhere something is?
- Sanjay Agarwal:** No, there is a difference, we cannot enter into the lower market with our plywood. Century Plyboards cannot even think of being in that segment actually, which is about 30% to 40% of the market. In that market, we cannot even imagine to be there. It is too low. But MDF is even cheaper than that.
- Sriram Rajaram:** Okay. So what?
- Sajjan Bhajanka:** Like our upper brands price range is 100, so we have some brands which are available at 90 and 80, but in markets, there are non-brands or local brands which are available at 40, 45.

So that is not our target. We cannot go down up to that level because that is mostly they pay very less tax, other things there, so our lower segment means Sainik and this thing, which is maybe around 20%, 25% cheaper than the prime brand. So that is there and the MDF, when we compare with our prime brand, when the MDF price is less than 30% and the particleboard price is less than 50%.

So the lower market, which is otherwise also the plywood available at 40% of our price, that segment is badly affected on the MDF because the MDF quality is better than the cheapest plywood, the molding and other things, durability, even the exposure to insects, other things are not best secured in lower plywood and MDF that way, is better product. So MDF eating up and to my information, at least 10% of the factories in Haryana and Punjab have already been closed down.

**Sriram Rajaram:** Okay. So do you have the detail, Sir, the prime and nonprime, premium one?

**Arun Julasaria:** In fact, Sainik is almost somewhere between 30% and 32%.

**Sriram Rajaram:** Okay. Sir, if you could quantify the expenditure that was booked in Q4, the sales-related, the CSR and stuffs, what is the quantum of the expense, Sir?

**Arun Julasaria:** Just a minute please. It is around Rs.15 Crores.

**Moderator:** Thank you. I would request Mr Rajaram to come back in queue for followup question. We will move to the next question, which is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

**Ashish Poddar:** Yes. Thanks for taking my question. So do you think that from Q1 onwards, this high rise in the other expenses which we saw in Q4 will normalize or it will again have some bearing in the coming quarters?

**Arun Julasaria:** In fact, there these are normal expenditures which we incur every year. Sometimes, there may be time difference. Sometimes, these are incurred in Q1, sometimes in Q2. Suppose we are making catalogs. Catalogs sometimes we make in Q1, sometimes we make in Q2. So if that expenditure comes in one particular quarter, expenditures of both quarters shoot up.

**Ashish Poddar:** Okay, so you are saying that the coming quarters will be normal in that way?

**Sanjay Agarwal:** Yes.

**Arun Julasaria:** It should be normal.

- Sajjan Bhajanka:** Yes. Hopefully, it should be normal and last quarter, we are having some political donations also. So that means that is an unusual thing that will again come during the next assembly elections or the next parliament election.
- Ashish Poddar:** Right and on the growth side, so the ply business, we understand Q4 may have got impacted because of elections and all. So how is the demand scenario moving now in last 5, 10 days. Is it still muted or you are seeing some kind of recovery and how do you see the full year going ahead?
- Sanjay Agarwal:** See, we are very positive about it, and I think in every discussion, we say that, yes, we are ready in terms of our capacity or we are ready in terms of our market penetration or retailer expansion. Our team in the market has increased. So everywhere, we are ready, but of course, the growth has not happened. We still expect the growth to reach two-digit figure, but just to tell you....
- Ashish Poddar:** No because Sir?
- Sajjan Bhajanka:** Now I feel because I really should not give you a figure actually. We must achieve and then only we can think about it.
- Ashish Poddar:** Yes. That is fine, but we are seeing good demand coming in the tiles and other building materials, but that is not happening in plywood.
- Sanjay Agarwal:** Yes. I would not say that, that is happening at the moment in plywood. I would not say so.
- Ashish Poddar:** So there is no concrete reason for that?
- Sajjan Bhajanka:** We are next in the order, first building is completed then tiles are fitted then people take possession of the flat and after that they will go for furniture's so we are almost last and after that, electrification, though we are the last thing and we are last, but one. So our number would come, but it may take some more time and there was a recent report that there is dilution in the inventory of the ready flats. In the last few months, there is a healthy dilution and with the government, I think there would be a big thrust on the housing. Housing sectors, they will provide low-interest money, and there will be other incentives. So I think with that, there will be growth in the lower segment then it will be followed by the middle segment and then the upper segment. So we cater to the upper segment and to the middle segment of the housing.
- Ashish Poddar:** Thanks and all the best Sir.

**Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

**Sonali Salgaonkar:** Thank you for the opportunity. Sir my question is related to the industry. Sorry again asking on the volume growth in FY2019, but what, according to you, are the reasons for a lower than expected volume growth in FY2019 and what do you think will change going forward, wherein you are expecting the volume growth to be good in FY2020?

**Sajjan Bhajanka:** In the last financial year, by and large, was a sluggish year and almost all the products and more related to housing, we are actually facing some demand resistance. So this way, maybe cumulative effect of these factors, but usually, the one low year is usually followed by a better year and like the elections are over, there is likely to be a big thrust on housing. So things would improve.

**Sonali Salgaonkar:** Okay. Sir, and also in the opening remarks, you mentioned that going forward, you are not expecting any further cuts in realization. Sir, I just wanted to understand what gives us this confidence considering the capacities that are there in the industry right now.

**Sanjay Agarwal:** You see, we have to look at the North India because we have an advantage. The prices may go down further in maybe a little bit in South India or in Western India because of material coming out from foreign countries. But as far as North India is concerned right now, if you look at the markets, most of the companies are doing okay. We are actually unable to really supply our material and also I have seen that in the last about 45 days to 60 days that no prices have reduced, not even 0.25%. So that is my reason to say that further prices will not cut because we are able to run our factory at a full capacity utilization or, say, maybe 85%-plus capacity utilization at the moment.

And yes, usually, during the rainy season, there may be a 5% or 10% fall in demand. So for just 5%, 10%, again, I do not think and other side also, we have to see the EBITDA has reached at a level. I do not think that there is any further scope to really go down. That gives me a full confidence at the moment at MDF and MDF growth, I must tell you that the growth story of MDF is intact, it is happening.

**Sonali Salgaonkar:** Okay. Sir, my last question is what is your current capacity utilization for plywood?

**Sajjan Bhajanka:** Plywood, it is I think around 75% to 80% on the various heads. It is 75% to 80%.

**Sonali Salgaonkar:** Sure Sir. That is, it from my side.

**Moderator:** Thank you. The next question is from the line of Neha Talreja from Edelweiss. Please go ahead.

**Neha Talreja:** Good afternoon. Thanks a lot for taking my question Sir. It was more pertaining to the segregation between the premium and then the Sainik. Can you give us a breakup? What was the breakup in FY2018 versus FY2019?

**Arun Kumar Julasaria:** Yes. Usually, we have around 30% to 35% Sainik volume. For this year, Sainik volume was 31% for the whole year and last year, it was around 25%.

**Neha Talreja:** So that is related to different margins in the current year along with some increase in raw material price?

**Arun Kumar Julasaria:** When we sell more of the lower end prices, our gross margin is a bit reduced.

**Neha Talreja:** Okay. Sir, could you also explain to us what is happening in the commercial veneer segment? Are we able to sell the veneer because we have been continuously seeing a drop in volumes in this particular segment? So what is happening on...

**Arun Kumar Julasaria:** Our Chairman will answer this question, okay?

**Sajjan Bhajanka:** Commercial veneer segment, there is change in the market. Earlier, India was majorly importing timber and there were many factories making veneer and selling. And we are the market leaders in particular veneer market. But after that, like one by one, country started banning the export of raw timbers. And the source of timber was Solomon Island from where we are importing timber and we were making face veneer. But the volume reduced substantially. And the first priority was given to our own requirement. So after meeting our requirement to whatever the excess was available that we were selling and for our upper segments, we are using keruing/gurjan veneer, which comes from Myanmar. Again, Myanmar, there was spurt in the prices. Timber was not available. The modus operandi was changed. Earlier, the conditioners where they were doing the operation and government banned that and they have taken their operation in their own hand. And then an entire timber was operated and procured by the government, and they are auctioning it. So due to less availability, price jumped, then it was not very much viable. So many units in Myanmar closed down, so more than 50% units in Myanmar closed down. So last two auctions we have seen that timber price has substantially come down in Myanmar because the people are not bidding aggressively. And now we have like increase our production in Myanmar and in the coming time, we are expecting a little more veneer and we are putting up one unit at Gabon also. And mostly, the Indian plywood factory, they are using veneer from Gabon.

And Gabon, it is relatively cheaper. And now almost 50 manufacturers from India, they started production in Gabon. So far, we are not using Okoume veneer, which is the veneer coming from Gabon. But luckily, for our lower end products, we have started using Okoume. So now we have majorly two source for veneer for our own requirement and for filling the market that is Gabon for - as far as we are concerned, our own production would start within another three, four months. And in the meanwhile, we are buying veneer from Gabon from we have tied up with many existing factories and we are buying veneer from there and Myanmar, we are producing our own veneer and bringing to India. But yes, after meeting our own requirement, the surplus available for selling in the market is much less in comparison to earlier times.

**Neha Talreja:** Sir, got that. Thanks a lot for the explanation. One more question was related to MDF segment. Last quarter, we had seen margins in the range of 10% to 11%. This quarter again, the margins have come down. Can we know what is the reason? Because volume seems to be up on a Q-on-Q basis.

**Sajjan Bhajanka:** The MDF I think the EBITDA margin for the whole year was 13% and for the last quarter, it is 15.3%. So gradually, it is improving might be the first quarter it was low, but for the last quarter, EBITDA margin in MDF was 15.3%. And similarly, in particleboard also, it improved from 22.5% for the whole year to 25.4% in the last quarter.

**Neha Talreja:** Okay. Sir, if I can just squeeze in one last question would be on your CFS business. What is happening there? In the last quarter, you explained the competitive intensity is very high, because of which we are continuously seeing reduction in volume, especially on margins. What is your outlook here?

**Sajjan Bhajanka:** It would remain competitive because two new players they have entered the fields. Allcargo, which was not in Kolkata, they have come here and then for CWC, they are distinct their contractor. They have started their own CFS. So there are two new players, and the volume is not growing. And there are some constraints in Kolkata because of one major connecting bridge that has collapsed. So that is also hindering some of movement from Kolkata port. So with all these things and really, the volume at Kolkata port is not growing. So there would be stress on the CFS maybe in the coming year or so. After that, maybe the normal value growth and Kolkata is very, very much behind other ports. So I think things will pick up. Kolkata will also pick up.

**Neha Talreja:** Sure Sir.

**Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** Thank you for the opportunity Sir. My first question was you mentioned that the CSR expenses and also the sales-related expenses were higher in this quarter. I think you mentioned Rs.15 Crores for the CSR. What it is about the sales expenses, which is kind of - got bunched up in this quarter?

**Arun Kumar Julasaria:** This is the total. In fact, Rs.15 Crores was total; the CSR donation related expenditures, around Rs.6 Crores balance was fixed.

**Achal Lohade:** And then got allocated to all segments on a revenue basis, is that right?

**Arun Kumar Julasaria:** Yes. In the ratio of turnover.

**Achal Lohade:** In the ratio of turnover. Sir, my second...

**Arun Kumar Julasaria:** Sales-related expenditures are segment-specific always. Like for laminate, it was into laminate segment to make it for veneer, the decorative veneer, it goes into plywood segment, an example, pieces for plywood, it was into plywood segment. But some common expenditure like CSR, etc, these are allocated in the ratio of sales.

**Achal Lohade:** Got it. Sir, second question was you broadly indicated the breakup between Sainik and non-Sainik. I see that Sainik has grown significantly for the full year, FY2019 over FY2018, while the premium actually declined. Is my understanding right, sir?

**Arun Kumar Julasaria:** Not significantly.

**Achal Lohade:** Like 25% was the Sainik we have seen in FY2018 and now 31%, 32%?

**Arun Kumar Julasaria:** 31%, yes. It has gone up.

**Achal Lohade:** Yes. So effectively then the premium has seen a decline. Is that right?

**Arun Kumar Julasaria:** Not exactly.

**Achal Lohade:** Can you help us with the specific volume, sir, for FY2018 and 2019? Why I am asking this specifically number, Sir, basically is it that the premium end of the market is under pressure and hence, the growth is weak and hence margin performance is also weak?

**Arun Kumar Julasaria:** We can say that the premium margin is all flattish. It is not growing. Premium market is almost flattish.

**Sanjay Agarwal:** Last year, growth is there about 4% to 5% growth is there in premium. I do not have the number right now, but we have neither de-grown nor grown, it is flattish.

**Nikita Bansal:** So I will just add to this. What has happened is that we have grown by 6%. 4% has come from our premium segment. 2% has come because of the growth in Sainik segment. Obviously, the overall growth if you see in Sainik would be in double-digit, but when you compare it in the whole portfolio itself, so it lends to about 2% extra growth from last year.

**Achal Lohade:** Got it. The other question I had, if I look at the difference between the standalone profit and the consolidated profit, I see the loss has increased from Rs.3 Crores to Rs.10 Crores for full year FY2019 vis-à-vis FY2018. Can you help us understand which subsidiaries are making losses and how do you see it going forward?

**Arun Kumar Julasaria:** I could tell you that our Laos operations have brought us loss of around Rs.7 Crores and Myanmar operations have brought us a loss of around Rs.6 Crores. And around Rs.3 Crores was profit from our Roorkee subsidiary. So in total, Rs.10 Crores were the loss.

**Achal Lohade:** Okay, understood. And you mentioned basically in terms of the MDF, you are already at almost full utilization. So what is the plan on the new capacity? Are we looking at the new capacity additions...?

**Arun Kumar Julasaria:** So in MDF this year, we operated at 67% on an average for the whole year. So still, there is scope to go up to 90% practically. And of course, we are sure that within a quarter or maximum two quarters we should reach at this peak 90% and you are right. You rightly said we should look for addition of the capacity to maintain our dominance in the market and further Mr. Bhajanka will tell you more about it.

**Sajjan Bhajanka:** Actually, we have that provision in the existing plant like we have acquired expansion land, electrical substation also with additional capacity and as even said we have constructed that time taking in account of future expansion. So now and like the various furniture are required in the market, so from one line to secure many products and many businesses, we are finding it difficult. And then there is robust demand in the market. And we are expecting that the MDF demand would further grow at the cost of the low-end plywoods, like cheaper plywoods. And so we are planning to expand our MDF capacity by around 60%, so add another 400 cubic meter capacity and of course, from the new plant would be much less in

comparison to earlier cost. We are expecting, at Rs.150 Crores investment, we shall increase the capacity from 600 cubic meter to 1000 cubic meters.

**Achal Lohade:** Has that plant finalized? Or it is still on the drawing board stage, Sir?

**Sajjan Bhajanka:** Still under negotiation and nearing and other things are more or less complete. And we are going for the same supplier of the existing plant. We think they are one of the largest manufacturer in the world of MDF plants, is a Chinese company and moreover, that company is the best of all the European suppliers as well. And the European suppliers, partly, they are now supplying from China under the 30% part and other things. And even the Chinese companies, there are critical equipments and sensors and other things they are also importing from Europe. So in that way, we have a mix of Europe and China, and we are going for the existing suppliers.

**Achal Lohade:** Got it. Sir, last question if I may, in terms of the volume growth expectation in the margin for plywood, MDF and laminate segment, please, for FY2020?

**Sanjay Agarwal:** Yes. I think first to laminate Keshav will explain.

**Keshav Bhajanka:** Yes. I think for all three products, we are going to look at double-digit flat growth. And in plywood, you have seen that has not happened this year, but we have various strategies in place for the current financial year. MDF, as the CFO already suggested, we have 64% capacity utilization. We have room to go up to 90%. We will be definitely be targeting 80% plus capacity utilization. And in laminates, we will be looking at a growth of closer to 15% to 20%.

**Achal Lohade:** And in terms of margins, if you could.

**Keshav Bhajanka:** In terms of margins, MDF margins are going to remain to be what they are today. As I have already said, there is pressure in the MDF segment with regards to pricing. It is now somewhat stable. Going forward, we are expecting price to remain more or less consistent. At the same time, with capacity utilization, we should be looking at the same EBITDA margins, if not slightly higher. In plywood, last quarter, the main reason for the drop in profit or drop in EBITDA margin was because of allocation. And I think going forward, EBITDA margins in plywood are going to remain flattish from what they were last year. In terms of laminate, the raw material cost increase has been passed on to the market. So slowly, we will be looking at a higher EBITDA margin, but the quantum of that will be difficult to state at the moment.

- Achal Lohade:** Thank you so much for the answer.
- Moderator:** Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta:** Thank you for taking my question. Sir, just wanted to understand on the plywood side, has there been any price taken by you or unorganized guys in last five to six months?
- Sanjay Agarwal:** You see the unorganized guys have announced some price increase, but then that has not been made any effect in the market because they are getting competition from MDF and the market is really not picking up still. As far as we are concerned, we have not done any price increase. But yes, on 20th of this month, we have taken a meager 1% price increase actually on all our products. So yes, that is okay just to take care of the expenses increase and all that actually.
- Pranav Mehta:** Okay. Sir, secondly, can you share the pricing differential between cheap plywood and MDF currently? As you are saying that MDF has started replacing cheap plywood, so what would be the pricing differential between the two products?
- Sanjay Agarwal:** Yes, 19 mm MDF will cost maybe Rs.25 a square feet and the plywood of that nature will cost maybe Rs.40 or Rs.42 a square feet. So there is the difference. It is not replacing in all the uses but many, many uses, now it is able to replace.
- Pranav Mehta:** Okay. And you think that this difference will continue going forward as well since I think the cost of cheap plywood has been going up for the unorganized guys if I am not mistaken.
- Sanjay Agarwal:** Yes, actually, you see the cost of raw material in MDF is declining. 47% is the cost of raw material in case of MDF maybe, but in case of plywood, the cheap plywood, really, is about maybe 70%, 75%, 80% is the only raw material cost. So their cost will only go up and up. And even today, you must have seen that Modi government has now decided to start billing on GST server. So they will start only with the big companies today. But maybe in a year's time or maybe 1.5 years, 2 years, they will ask everybody else to start billing on the GST mode, on the GST server. If they do that, then whatever the tax duty evasion happening, even that cannot happen after that actually. So yes, it is very slow road to whatever we expected with the GST story, but in India, yes, that is the truth.
- Pranav Mehta:** Okay. And Sir one last...

**Sajjan Bhajanka:** I would like to correct, the MDF available at around Rs.30 per square feet. 19 mm MDF is between Rs.30 to Rs.32 and plywood is what Sanjay said, around Rs.40, cheaper plywood, 19 mm per square feet.

**Pranav Mehta:** Okay. And Sir, on the particleboard side, you are seeing pretty strong growth coming in. So what is your take for next two years? So will this growth continue? And is particleboard one of the products which is competing with cheap plywood as well?

**Sajjan Bhajanka:** Yes, particleboard, particularly our existing capacity only in Tamil Nadu, Chennai plant and which is running at 100% plus capacity. Our capacity was around 5000 cubic meter a month. And now we are achieving 5500, 5600, like that, so almost 10%, 15% more than excess capacity utilization in there. And most of what we are selling, we are selling value added product that is that pre-laminated particleboard. So raw particleboard or plain particleboard sell at hardly 20% to 25% and 75% plus is the regulated product. And we have got a license for a particleboard and MDF factory in UP.

So first, we shall start with particleboard there because particleboard main risk is from imports and from UP, UP in itself is likely to be a big market for particleboard because for the low-end furniture, particleboard is a main raw material. And these factories are growing in UP. New factories are coming up and other things, so we are expecting in time to come there would be good indigenous demand in UP. And then the import would be less competitive because nearest port to the UP are either Kandla or Kolkata or Vizag, so logistics costs cost per cubic meter around Rs.3000. So that would be extra cushion for the factory in North India and presently, not much capacity in North India in full of particleboard. So we are planning one factory of around 500 cubic meter per day capacity in particleboard in UP. And we have some incentive package also, like whatever would be our local sell as GST on that, up to the extent of 200% of our investment would be available to us as subsidy.

**Moderator:** Thank you. The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

**Sriram Rajaram:** Sir, what is the current capacity of plywood?

**Arun Kumar Julasaria:** We can produce around 210000 cubic meter per day now.

**Sriram Rajaram:** 210000. But you said utilization is around 75%, but I see volumes are more than that, right, 2 lakhs 30 I think.

**Arun Kumar Julasaria:** Yes. In that case, we will have to include capacity of our subsidiary. If we see it on consolidated basis, then capacity is more, which is around 240000.

**Sriram Rajaram:** 240000, okay.

**Arun Kumar Julasaria:** Yes. In this standalone that is turning material.

**Sriram Rajaram:** Yes. Sir, this particleboard which you mentioned, what is the investment for the 500 cbm per day? And when is it likely to come up?

**Sanjay Agarwal:** Rs.120 Crores to Rs.125 Crores.

**Keshav Bhajanka:** It will be around Rs.120 Crores to Rs.125 Crores and the time taken to establish the plant would be 12 months from the time that we finalize on the line. Once the line is procured within 12 months, we can set up this plant.

**Sriram Rajaram:** So the same applies for MDF, 12 months, from the date of finalization.

**Keshav Bhajanka:** In MDF, we will try to do it faster because it is in the existing plant and a lot of the infrastructure would already be ready. So from the date of finalization, we should be able to complete it well within 12 months.

**Sriram Rajaram:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Raunak Dalal from Ambit Capital. Please go ahead.

**Raunak Dalal:** Thank you for taking my question. So my first question was on the working capital days. Sir, payable days have come down to 26. So anything you can tell us about your working capital days? Second is that what would be your return on capital employed, if you can share, on the MDF front? Because I believe that earlier at around EBITDA margin of 18% to 20% or rather I had seen that ply and MDF have a similar return on capital, but however, now it is possibly much lower return on capital versus ply. So can you just tell us the return on capital by division? Anything that you can share?

**Arun Kumar Julasaria:** Replying to your first part of the question regarding working capital cycle, we have reduced the payables mainly on buyers' credit. This buyers' credit, we are availing in foreign exchange. We are deferring our foreign exchange payment. As I mentioned in my earlier remarks that in order to derisk ourselves from foreign exchange risk, which was happening this year due to erratic movements in foreign exchange, we have consciously reduced our

exposure in foreign exchange. So whatever impact you are seeing in working capital cycle is mainly due to that only. Otherwise, if you see all other parameters like debtors, inventory, inventories almost same, but debtors have drastically reduced only because payables have come down by 33 days, overall working capital cycle have gone up by 24 days. Do you want to know anything more on that?

**Raunak Dalal:** No, that is fine, sir. The second one...

**Arun Kumar Julasaria:** Regarding return on capital employed for MDF only, at the moment, I have not calculated figures separately. I can come back to you separately. But by thumb rule, return on capital in MDF is 2% more than EBITDA margins. In this figure, I will have to calculate and come back. I can tell you ROCE at company level.

**Raunak Dalal:** No, I have that. Sir, what about maybe on ply?

**Arun Kumar Julasaria:** You want to know ROCE at segmental level? I have not calculated yet.

**Raunak Dalal:** Okay, thank you.

**Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC. Please go ahead.

**Rohit Dokania:** Good afternoon. Thank you for the opportunity. Sorry, I joined the call a bit late. I might be repeating the question. Can you talk about the sort of overall MDF industry in terms of what kind of capacity utilization is the industry working at? Also on the pricing trends, also what kind of new capacity is coming in over the next sort of 6 to 12 months?

**Sajjan Bhajanka:** I will take you back maybe 30 years back when India had its first two plants, Mangalam and Nuchem with 100 cubic meter per day capacity. Though that took more than 25 years to sell their entire production, that is 200 cubic meters per day and in the meanwhile both of them went to BIFR and ultimately, Nuchem closed down. Then after that around 2010, all of a sudden, around 1200 cubic meter capacity came in India, new capacity Green 600, then action is there and then some small plants, Shridi and others. And within a year, their entire production was sold. And in spite of that, the import was growing at a rate of 50%, per annum. So that continued for a couple of years, and it was good until we came into the picture. When we started production again, there were no price cuts. There was nothing, we were able to sell our entire produce, but that time, we took time to gradually reach our substantial level. And after that, then Green, they came up with a second plant in 1300 cubic meter per day capacity in South India. And Action, they commissioned 700 capacities in

North India and there were two small plants, 200 each capacity, Pioneer and one more plant in North India, Metro.

So with that, there was all of a sudden, surplus situation in the market and more particularly, North India now what I am feeling that everybody is selling their produce, everybody able to produce to their capacity and able to sell it. But South India, there is a good competition from imports because import, the global price of MDFs and particleboard has gone down substantially. And South India like starting from Kolkata to downward, to the East Coast to Western Coast up to the Kandla, every 200 kilometers, there is a port, and material is being imported. So the MDF industry as a whole, I feel that in South India still would be continued for some more time. In North India, if substantial capacities do not come then I do not foresee any problem because market growth in North India would be there. The MDF is gradually replacing plywood, at least lower end plywood.

And when we compare with China, the situation is quite bleak. But China, their MDF capacity is around 60 million cubic meters, whereas our present capacity is around two million cubic meters. So we have a long way to go. And like particleboard also, MDF China capacity is 40 million cubic meter. Particleboard is 20 million cubic meter. And our present capacity over MDF and particleboard together is 2 million plus 1 million cubic meters. So that is there is a big scope, but in South India, I feel there would be stress for some more time.

**Rohit Dokania:** Understood, Sir. And on India level, what could be the capacity utilization of the industry including both North and South India if you can give some broad figures?

**Sajjan Bhajanka:** There is one change that what I perceive that North Indian factories that will rely on North Indian market only because sending material to South India and incurring logistic costs and selling it at a lower price than in North India, so I think this is not viable economically and logistically. So North India, what I feel the present capacity is almost equal to the market demand. And South India's capacity, less demand is very high in South India but only distorting factor is the imports.

**Rohit Dokania:** Understood. Okay. And what is the overall growth Sir in the industry as far as the MDF is concerned, with north and South?

**Sajjan Bhajanka:** The organized data is not available.

- Keshav Bhajanka:** I think we can look at a 20% figure, even though we do not have completely organized data available. But the industry trend, it is going by 20%. And as the rate of substitution of plywood has picked up like most of the market is saying then could even be higher.
- Rohit Dokania:** Understood. Just one last question from my side. Can you talk about the capex that we plan to incur this fiscal in FY2020?
- Keshav Bhajanka:** You see, as of now, the fixed capex is not substantial. There is an investment that we foresee in the plywood unit in Hoshiarpur, which until now we are not very sure about the timing. So it could be now. It could be in the future. It could be postponed. Other than that, I do not think there is a small investment in the Veneer Unit in Gabon to Rs.22 Crores odd and that would be the total investments for the year. However, having said that, as you know, we are under discussions for two new projects, the particleboard plant in Uttar Pradesh and the expansion of the MDF plant in Hoshiarpur. So once we freeze on these, we will update you.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari:** Sir, in terms of MDF versus plywood, if you look at - you are seeing that Sainik growth has been significantly higher than the overall plywood segment. So what is the average price of Sainik?
- Nikita Bansal:** So the average price that we have in Sainik for commercial brand as well as the waterproof brand, so the waterproof brand sells at around, with including GST, around Rs.95 whereas other commercial brand sells around Rs.63 plus GST.
- Rajesh Kothari:** I see. So of the total industry, you mentioned that in South, the MDF industry is facing issues because of the competition from imports and what would be the import price compared to the North India prices?
- Sajjan Bhajanka:** Like North India, now our average realization is around Rs.20000 per cubic meters. And the landed cost at South Indian ports including taxation duty, it is somewhere between Rs.14000 to Rs.15000 depending on the port and the location.
- Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead. Due to no response, we move to the next question, which is from the line of Manoj Bahety from Carnelian Capital Advisors. Please go ahead.

**Manoj Bahety:** Thanks for taking my question. Sir, my first question is like how do you see incremental return on capital employed on MDF since you are planning further capex there with 1x kind of fixed asset turnover and 14%, 15% margin as well as investment in working capital. Will it be dilutive to our overall ROC and ROE profile of the company?

**Keshav Bhajanka:** So in terms of the new capex, we are looking at an expenditure of under Rs.150 Crores with a capacity of 470 cubic meters. So if you look at our current capacity, it is at about 600 cubic meters and at 100%, we should be able to generate turnover Rs.400 Crores plus. So what I am saying is, with the Rs.150 Crores expenditure, we should be looking at total revenue of Rs.300 Crores, which is a ratio of 1:2, the reason being that we have already created some of the infrastructure and the new line that we are setting up is going to take advantage of existing facilities. So when you are comparing ROCE instead of thinking 1:1. It should be 1:2. Secondly, currently, you are seeing the ROCE as lower because the EBITDA margins in the industry have fallen because of the supply glut. This supply glut is not something that is going to last for the foreseeable future. I believe with the industry going at 20%, as far as calculations, the overall supply position in the industry, all capacities will be operating at 80% plus from December next year, December 2020. Considering our plant will take at least 9 to 12 months from the date we finally decide on it, our plant should be hitting the market somewhere around that. So I do not think that these EBITDA figures should be taken into consideration. By the time the plant comes into operation, EBITDA should be higher and the asset turnovers from this plant or the additional capacity would be 1:2.

**Manoj Bahety:** Sir, but overall basis it will be still 1:1, right, if I see your original investment as well as the new investment. So if I see MDF as a whole, so your overall asset turnover ratio with 14%, 15% kind of EBITDA margin and also working capital investment. So do you think it will be around 10%, 12% kind of return profile on an overall basis?

**Keshav Bhajanka:** If you look at the total capacity today, we have set up Rs.350 Crores worth of capacity. The turnover is likely to be at around Rs.400 Crores plus actual utilization. The additional capacity will cost Rs.150 Crores and the turnover is likely to be Rs.300 Crores plus. So the total turnover we will be looking at would be Rs.700 Crores plus from a total investment of Rs.500 Crores. That is not 1:1. That will be closer to 1:1.5. And secondly, the EBITDA margins are so subdued right now because of the supply glut. Once the supply glut clears up, maybe over the course of the next year or so, the EBITDA margins will definitely shoot up. So this is a short-term phenomenon. It will affect us in the short term. But I believe, going forward, the ROCE from MDF is going to be substantially better.

- Sajjan Bhajanka:** Actually, our original plan was to immediately starting the first phase, we shall go for the second phase. And accordingly, we have built a capacity like land we have taken around 50 acres. The electrical substation we have created for 20 megawatts. So all things were in place for the second line, but due to the market, this thing, demand/supply ratio and the equation, we have delayed our decision by almost 1.5 years. So now we feel it is the right time because it will take almost one year to commission the new capacity. And by that time, we feel there would be substantial demand and more particularly in North India because no big capacity is coming. Nothing in the pipeline, nothing in the channel. So I think we sell first with the new capacity and by that time, there would be substantial demand in the market.
- Manoj Bahety:** Thank you so much Sir. Thanks for the detailed explanation.
- Moderator:** Thank you. The next question is from the line Gaurav Agrawal from E&R Advisors. Please go ahead.
- Gaurav Agrawal:** Thank you so much Sir for giving the opportunity. You mentioned about your segment-wise EBITDA margins for FY2020. Can you give on an overall basis what kind of EBITDA margin do you expect and also, Sir, the revenue growth for FY2020?
- Arun Kumar Julasaria:** Pardon, you wanted to know about idea of future...
- Gaurav Agrawal:** Yes. So you give segment-wise. What I am saying is for FY2019, you reaped 13.3% kind of EBITDA. How are you seeing this EBITDA margin for FY2020 and expected revenue growth?
- Keshav Bhajanka:** Okay. So as we look at it by segment-wise, I believe that in the plywood segment, we would be looking at EBITDA margins similar to last year as a whole. If you look at the laminate EBITDA margins, I definitely believe that for the entire year, our EBITDA margin should be at least 200-basis points higher than what they were last year. MDF margin should look somewhat similar to what they were last year, although in the second half of the year, with additional capacity utilization, we believe that the EBITDA margins should be slightly higher. Particleboard under CFS, again, as we are running particleboard at 100% capacity, similar EBITDA margin to last year and in terms of CFS, we are facing some competitions but we are going to try to maintain EBITDA 30% plus. So blended EBITDA margin should be higher than the previous year, but I cannot exactly quantify by what extent.
- Gaurav Agrawal:** And Sir, the overall revenue growth.



*Century Plyboards India Limited  
May 28, 2019*

- Keshav Bhajanka:** Overall revenue growth, we are definitely going to be looking at double digit plus.
- Gaurav Agrawal:** Okay. Would that be like 13%, 14% would be our estimate today?
- Keshav Bhajanka:** Yes. We are targeting to that figure.
- Gaurav Agrawal:** Thank you so much.
- Moderator:** Thank you. We will take one last question, which is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the followup opportunity Sir. Just quick question. You mentioned in the passing month that global prices of particleboard and MDF have fallen. Would you be able to quantify, like you said, the landing cost of imported MDF is about 14000 and 15000. How much is the reduction by?
- Sajjan Bhajanka:** Particleboard, landed costs reduce from around \$160 to \$140 and MDF, again on the landed cost from around \$220, it had come down to \$190, \$195, \$200.
- Achal Lohade:** Got it. And just if you could talk a bit about your distribution expansion, the consultant you have hired for, what is the status? And is that helping you improve the receivable days?
- Keshav Bhajanka:** You see, it is still a pilot project whereby we had looked at two branches, Mumbai and Lucknow and it is still ongoing. So yes, there is a distribution expansion there, but it is too early to comment. I think we will be in a better position six months later to give you an update on this thing.
- Achal Lohade:** Thank you so much. Wish you all the best.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. And I hand the conference over to the management for closing comments.
- Sajjan Bhajanka:** Thank you very much, friends, for all your questions and taking time and joining us and your interest in the company. We shall do our best to justify your faith in our company. And whatever it is our command, we shall try to do we shall try to perform better. Thank you very much and thanks to SBICAP and Mr. Lakshminarayana Ganti and Mr. Ayush Bagla and for Margreth to coordinating the entire conference. We thank you very much.
- Moderator:** Thank you. On behalf of SBICAP Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.