



“Century Plyboards Q1 FY17 Earnings Conference
Call”

August 04, 2016



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MODERATOR: **MR. ACHINT BHAGAT – AMBIT CAPITAL**



*Century Plyboards (India) Limited
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Moderator: Good day ladies and gentlemen and welcome to the Century Plyboards Q1 FY17 earnings conference call hosted by Ambit Capital Private 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 this conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Achint Bhagat from Ambit Capital. Thank you and over to you sir.

Achint Bhagat: Good afternoon ladies and gentlemen. Thank you very much for joining the Q1 FY17 earnings conference call of Century Plyboards. We have with us today the management of Century Plyboards represented by Mr. Sajjan Bhajanka the Chairman, Mr. Julasaria the CFO, and Keshav the Executive Director. I request the management to give their brief overview on the results before we open up the floor for questions. Over to you, sir.

Sajjan Bhajanka: Welcome friends. I am Sajjan Bhajanka, Chairman of the company. As explained by Achint, Arun Julasaria, our CFO and Keshav are with me. Before I give you any other detailed overview first I will request Mr. Julasaria to give you financial data and after that I will come on the line.

Arun Julasaria: Good afternoon friends. Thanks for joining us at this conference call. First I would like to state that this call is just to discuss company's historical numbers and future plans. It should in no way be construed as invitation to invest in the company. We have circulated a PPT containing comparative financial numbers so I will not take much time in repeating the same. I will mention some basic figures only. Year on year topline has grown up by 10% from Rs. 370 crores to Rs. 406 crores. EBITDA margins which were around 17% for the last whole financial year are almost maintained at 17%. PBT has increased from Rs. 45 crores to Rs. 51 crores. Due to change in revenue mix the burden of tax in current quarter is a bit more compared to corresponding quarter last year, but it is about 15% in line with the last whole year. PAT has increased from Rs. 40 crores to Rs. 43 crores. Although it was a quarter of foreign exchange ups and downs caused by Brexit, Rexit, etc., but due to short-term hedging we adopted this time loss on account of FOREX difference was limited Rs. 55 lakhs only. The net FOREX exposure has considerably come down to Rs. 97 crores from Rs. 186 crores in March 2016. Growth on both plywood and laminate is basically volume driven growth and segmental EBITDA margins are marginally down because of higher distribution and advertisement cost. This quarter results are as per Ind AS and there is negligible difference, which is evident from reconciliation statement published by us. Now we open discussion for questions and answers.

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 Nehal Shah from ICICI Securities, please go ahead.

- Nehal Shah:** Couple of questions from my end. From the plywood segment can you give us a breakup between the premium and the commercial which is Sainik segment and volumes and revenues. Two, the PLPB segment which has shown degrowth in volumes and revenues.
- Sajjan Bhajanka:** Mr. Julasaria will give you the figure but the pre-laminate background I am giving you. Earlier we were buying particle boards and other things and pressing it. So as we have already commissioned our particle board plan, we have already commissioned it last week. So now we are planning that in future we shall use our own board. Our particle board capacity is very high, so the present capacity would meet only 25% of pre-laminating requirement. But we are likely to install another line also with double capacity for pre-lamination. First we will stabilize it and then in another 3-4 months we shall commission the second line. And maybe if logistics supports we may bring some particle board from Chennai to Kolkata also. So that will work whether to import directly to Kolkata is better and with disposal of our entire particle board in South India only if it is advantageous we shall do that or otherwise if by coastal cargo if we can bring to Kolkata at lower cost so we will try to explore that option also.
- Arun Julasaria:** If you see, the volume of the plywood in Sainik has gone up by 30% but you will appreciate that base of Sainik is small. It has gone up from 9520 cubic meter to 12340 cubic meter. Growth of premium is nearly about 7% and an average growth is near about 12%. It is from 31826 cubic meter to 34151 cubic meter.
- Nehal Shah:** And can you give us the value breakup as well, the revenue breakup?
- Arun Julasaria:** Prime has gone up from Rs. 155.8 crores to Rs. 164 crores and Sainik has gone up from Rs. 39.9 crores to Rs. 52.3 crores.
- Nehal Shah:** So that means in premium we have taken a realization cut.
- Arun Julasaria:** Realization is a bit down by almost 2%.
- Nehal Shah:** Any reason? Is it because of additional scheme because of the current environment or any other thing?
- Arun Julasaria:** It is marginally down.
- Sajjan Bhajanka:** Like raw material prices have come down, our competitors they have decreased the price just to be in line with them; we have also given 2% additional discount.
- Nehal Shah:** Coming back to pre-lamination, I did not understand why exactly the sales were down? Was it because of a transitional phase where we have cut down on the procurement and we are now trying to stabilize this unit and then start the PLPB sales again?

Keshav Bhajanka: The basic reason behind the same is that the pre-lam when you import there is a very very low profitability. So since our particle board plant was coming up and particle board plant was marginally late by a month, we decided that we will cut short our imports and we will focus on higher profitability and sales. We will come post commissioning of the plant. And this is the same in the next quarters you will see a pre-lam segment growing and the profitability in the pre-lam segment growing substantially.

Nehal Shah: What kind of margins can PLPB have at 60-70% operating level and when would you expect the PLPB plant to come back to say around 70-80% utilization levels?

Keshav Bhajanka: So we are talking about two separate plants. Pre-lam capacity basically is a very minuscule investment. When you look a particle board plant, for the particle board plant we can look at EBITDA of in excess of 30% actual capacity. And during the course of this year, towards the end of this year I am sure we will be operating at 70% plus capacity at the end of the trade. So from next year onwards it will definitely be 70 plus. Over the course of the year since we have started late it will be lower, but over the course of next year we will be at 70% plus.

Nehal Shah: That is FY18 you are saying.

Keshav Bhajanka: So I think last quarter of this year we should be working at around 70% capacity plus.

Sajjan Bhajanka: I am more optimistic than Keshav. I do not see any reason why we shall not be able to operate at 90% plus capacity because every day we are improving it. It is only 5-6 days we have started it, so the first day it was around 25 cubic meter then 30, 40, 50, 60. So every day we are increasing the capacity and we have not started shifts. So I think around 140-150; what Keshav is talking 70% that we shall achieve within a month. And then it will depend as a quality report is very good. Our people they have given the quality report is excellent with better quality and better other things and marketing network because last year we did not do but before that we were importing particle board and marketing it. And then there were sometimes quality concerns and other things. So then we decided we shall wait until our production starts.

Nehal Shah: But sir what about the pre-lamination capacity because that is currently...

Sajjan Bhajanka: That we have to wait because we are putting up MDF plant also, so MDF plant capacity around this particle board is 180 tons per day. Actually it is 200 cbm per day. But we assume this is 180 that is achievable and similarly our MDF is 600 cubic meter per day. So MDF we have ordered for a very high capacity pre-lam line and maybe we shall repeat that line for our Chennai plant also. So that will be three times our existing pre-laminating line. And the Chennai and Kolkata pre-laminating lines are the same. So now because construed marketing we are attempting for this pre-laminated particle board and MDF so maybe with that we shall commission both the line to the maximum possible utilization. So this shall contribute little more in this financial year.

- Nehal Shah:** So basically till the end of this year we will have a large proportion of only particle boards being sold?
- Sajjan Bhajanka:** Yes, because at the moment there is over-capacity in pre-lamination and even directly selling it without pre-laminating it is giving almost equal realization. So there is virtually no value addition, but this is not going to continue forever.
- Nehal Shah:** But is it because of China being more competitive here in the segment?
- Sajjan Bhajanka:** Small manufacturers... lot of them they have mushroomed all over the country. They import only one press, manual press without any automation and they are buying particle board and pre-laminating it. So they are there but we have other advantage, we have advantage of quality, quality product and wide range. And there is some scarcity of particle board because as stated décor is not functioning properly that the largest plant in India. So that plant is disturbed, so that has created some vacuum in the market.
- Nehal Shah:** Last question, can you give us realization sense on the particle boards and the pre-lam particle boards separately per CBM?
- Sajjan Bhajanka:** We are assuming that net realization at our level will be near about 12,500 per cubic meter of a plain board.
- Nehal Shah:** And the PLPB would be around 20% higher?
- Sajjan Bhajanka:** We have no readily available figure, but around 25% to 30% is cost of pre-laminating it and at the moment it is almost similar with higher realization.
- Arun Julasaria:** In case of pre-lam, pre-lam cost depends upon the thickness. So it is very difficult to speak in CBM sense.
- Sajjan Bhajanka:** So like higher thickness shall have less cost addition. Lower thickness will have more cost addition.
- Nehal Shah:** Sir in fact I just forgot. Two things again, one is the Laos issue which has happened with respect to the ban on processed veneer raw timber whatever is the noise which we are hearing and two is the GST noise; obviously GST has been passed yesterday. So what are your thoughts on both the issues which are very very important issues for us.
- Sajjan Bhajanka:** First on Laos issue, there is change of government in Laos and the new prime minister was a little worried about the illegal forestry going on in Laos. So first they banned the export of timber.

Nehal Shah:

It was banned earlier also.

Sajjan Bhajanka:

Yes, earlier it was banned but at that time timber export was allowed because last year we imported lot of timer from Laos. So after that only it was banned, after the new government came and after that they have banned the export of unfinished products. So the classified veneer also is unfinished product. Then we have taken up the issue with the government and a lot of negotiations and things were there. We have produced document that veneer is covered under separate HSN internationally like pig iron, sponge iron, other things. They are never a finished product but in itself they are finished product. They are international commodity and freely tradable and none of the countries in world have ever banned veneer export. And the government accepted our argument and then we have another argument that the timber available in Laos is Gurjan, that Dipterocarpus variety which gives very good quality of face. So their face is around 70%, core is around 30% and if they do not allow export then the entire timber is to be used in plywood where the value of face is minimum four times of the core. So this thing they will be wasting then people, whoever would use this thing, they will use entire quantity in making plywood whereas face requirement in plywood is below 10% and core requirement is 90%. Whereas the yield from the Keruing timber is 70% face 30% core. So unnecessarily it is like while going to the drainage, so government accepted that argument. So in principle they have decided to allow export of face veneer and they have taken a decision the core they will not allow. Only they have given some time, maybe 2-3 months, until then only they will allow core veneer and after that entire core is to be consumed in the country, in Laos only. And additional phase because it is a precious metal, it is more than in ratio so the policy decision wise they have taken it. So our factory loading has already started and we go to the permission through all the factories of loading face veneer and at the same time they access our capacity and the inventory of the timber and everything. So almost they have given us clearance up to March next year. So whatever we shall be producing, we go to the quota, we go to the capacity assessment and we are putting up a plywood factory also. In Laos, that is under the FDI route. We are putting up two factories, one is like veneer in it in the timber prone area where this Dipterocarpus, i.e. Keruing timber, is available in plenty. So there we are putting up four lines that is in FDI route. They have given us permission; they have given us land and another factory in joint venture. So we have taken local partner and joint venture route and there we have established a plywood factory. And that plywood factory would be able to consume entire core by our own all six units where all are functional. So that factory will consume all the course generated by all the factories and that material we will bring to India, their finished product and veneer we shall continue to export to India. There also our strategy is that we have six units in India, so we import entire phase to India to our units then we grade it in India and the superior grades we use in Century Plywood and then the inferior grades we sell in market at discounted rate.

Nehal Shah:

But currently whatever core is remaining after peeling off the face veneer that is currently lying as inventories.

- Sajjan Bhajanka:** With the existing stock they have allowed to export the core veneers. But as our factory is just likely to commission, so internally we have decided not to bring core to India because you know logistic cost is very high. Laos is a land locked country, so entire veneer goes from Laos to Vietnam and then from Vietnam to India and then again there is equal tax per cubic meter on core and face. So that tax itself is very hefty. And the net realization of core coming all the way to India is hardly \$250 per cubic meter whereas the face realization is more than \$600 per cubic meter.
- Nehal Shah:** When are these units expected to come into operation, both the JV one and FDI?
- Sajjan Bhajanka:** Three units are already functioning.
- Nehal Shah:** The plywood one.
- Sajjan Bhajanka:** The plywood one is ready. This 29th through 31st I was in Laos. I have returned on 31st evening only. So that was almost ready and they are targeting it to start on 15th of August.
- Nehal Shah:** The FDI one?
- Sajjan Bhajanka:** No, the JV one. But with joint venture also we have taken permission in name of Stege Lao, but she was our employee, senior employee, local employee. And they have entered into agreement with us that they will charge a fix amount of \$48,000 per year, so that is maybe around Rs. 30 lakhs. Then they will not have any claim in the profit. Because usually our modes operandi is that face veneer and other things whatever we generate there, we transfer to India at cost price and the profit is then booked into the company only.
- Nehal Shah:** And sir the FDI route will start when?
- Sajjan Bhajanka:** That will also start. The factory is almost ready and there is some issue with power connection and other things. So within August that will also start and there we have almost 20,000 cubic meter timber in our factory and our ports.
- Nehal Shah:** And sir the capacity for both the factories put together would be?
- Sajjan Bhajanka:** Now we have altogether 6 factories in Laos and due to this restriction and other things, lot of other aspirants from India they have backed out. So it was positive for us that it will save us from a tough competition in future. Like Burma, everybody has entered Burma and there is scarcity of timber now and Burma government is also considering to regulate timber operations and that same thing would have been in Laos. At the right time they have intervened, so we shall be comfortable. And we had a lot of discussion with government. They are considering allowing us very vast forest area with a condition that we shall go for FSC

Certification and as per FSC regulation only we shall do the logging. So maybe in future lot of possibilities are there.

Nehal Shah: And sir lastly your thoughts on GST.

Sajjan Bhajanka: GST, as we have discussed earlier also, now the implication of tax on us is around 30% and if GST is 18% we are going to save 12%. If it is 20% we are going to save 10%. And this 10% we are not intending to retain. So maybe 50-60% of this we shall pass on, so it will improve our profitability and whatever we shall pass on that will improve our compatibility. And at the same time like the unorganized sector they will be under pressure because there is also huge import component in their manufacturing. So now chemical and other things whatever is imported government will charge GST at the first point when the material enters India. So after that the Middle East this will not have anything to manipulate that they can give to them to undervalue and this thing. And like the dealers they hardly add 5% value. So their implication would be additional 0.9% if they add 5% value. So they will insist onto the full billing, for they will not go for under-valuation.

Nehal Shah: Sir another thing, today timber is out of the excise ambit, right?

Sajjan Bhajanka: Yes, that is the main point.

Nehal Shah: And VAT is applied on timber today.

Sajjan Bhajanka: But like on timber VAT is applied and this GST will be applied on timber.

Nehal Shah: Then it is a big positive for this.

Sajjan Bhajanka: Yes, so now the timber import if it is from FTI areas like from Asian there is 0 custom duty and there is 0 countervailing duty and only 4% SAT. So at that they bring and then manipulate and all the people they do undervaluation. So this will not be possible in future because they have to pay their entire 18% at the time of import then they will be compelled to recover that money.

Nehal Shah: And sir, even the domestic timber sourcing, that will attract GST?

Sajjan Bhajanka: I am not sure. They have not notified, like it is plantation timber from the agro-forestry so whether they will keep it exempted or they will impose GST on this is a question because it will tantamount to be an agricultural commodity. But the biggest advantage we shall have, because now they have SSI exemption. So that exemption is if their last year's turnover is not 5 crores then this year on 1.5 crores they will get 100% exemption. So intentionally they keep within Rs. 5 crore total turnover, so that year on year they can keep on availing the first 100% exemption on first Rs. 1.5 crores. So that thing now may not be possible in future because the

insistence of the dealer and buyer and traders for the full billing so they will be compelled to issue full bill and earlier they were issuing the challan, later on when the material reaches the destination they used to throw away all the challans and make the thing clandestine. So in GST like platform that will not be possible.

Nehal Shah: So the talks are right that the threshold limit is going to cut down to 1 million, so Rs. 10 lakhs?

Sajjan Bhajanka: Yes. No ply factory can survive at 1 lakh, 10 lakh or 50 lakh or 1 crores, so in that case this is thing of past for them.

Moderator: Next question is from the line of Kaurang Ved who is an investor; please go ahead.

Kaurang Ved: Sir as you said in the annual report that last year was a challenging year for the company and your best is just around the corner. So previously you have shared that your aspiration was to reach Rs. 5000 crores revenue by 2020 with a 10% PAT margin. Now with GST around the corner plus our new MDF plant will be coming up in the near term; so I think all the building blocks are in place for our company. So do you see us achieving that target or you would have to revise it. So any thoughts on that will be highly appreciated sir.

Sajjan Bhajanka: Last year when we shared between this thing and this thing GST delayed by one year. So maybe this target we can revise up to 21. So this 1 billion revenue we are contemplating by 2021 and like all things other things are there in place and like you have seen we have created a new brand to target the mid-segment that is Sainik. So now Sainik is also a very popular brand and so the opportunity we shall get by migration of the quantities from unorganized sector to organized sector... so that we will tap through this brand. And then we may acquire some units either on the job or maybe on these things under the technical control of ours we share procure material from other units which will not be viable on its own after the GST. So there is ample opportunity. We shall get over from MDF and what I feel there would be hefty growth of MDF. So maybe in the coming 2-3 years we may have to put more MDF plants.

Kaurang Ved: And sir our PAT margin showed around 10% odd, that level should hold or...

Sajjan Bhajanka: Yes, we are targeting and we are trying our best to hold that 10%.

Keshav Bhajanka: Actually in line with what the Chairman has said, post GST and post our current position with the MDF plant coming in, all the building blocks are probably in place and the last time that sudden change took place in the industry was 2008 when the excise duty was revised from 16% to 8%. At that point the share of the organized sector increased from 10% of the industry to 30% of the industry and if GST causes a similar change which it should or rather a higher change in the coming 2 to 3 years then definitely the Rs. 5000 crore target will be achievable in 2021 if not earlier. Other than that MDF is a very profitable and lucrative segment. Particle

board is a profitable and lucrative segment. So going forward PAT margins should be around 10% or could even be high.

- Moderator:** The next question is from the line of Neha Talreja from Emkay Global, please go ahead.
- Neha Talreja:** Just two questions from my side. One is that we have seen a sharp decline in the laminate segment, I mean the exports are down. So if at all you could explain that what is the scenario which is going on in the laminate segment?
- Keshav Bhajanka:** If you look at laminate segment, domestic we have 27% year-on-year growth. Exports, we do have a growth but the problem is that due to Ramzaan in three of our main export markets we have not been able to ship material out in June because they would not have any dispatches. That has been moved to July. So it is just causing a shift of one quarter and the degrowth that you are seeing when you see a disproportionate growth in the current quarter. So I think it is just a quarter-on-quarter effect because this time Ramzaan took place in July, so because of that we could not make. I think middle of June to middle of July, that was the time period. So we could not make dispatches to Indonesia and other countries during that time period. Now when those dispatches have taken place you will automatically see an increase in the turnover for this quarter, which was going to compensate for the deal what you saw earlier.
- Neha Talreja:** And secondly sir on the realization side, I mean we have seen sharp decline in realization for both laminates as well as plywood on a YoY basis. So, any specific reason for decline that we have seen?
- Keshav Bhajanka:** Laminate's domestic the decline in realization was just due to a changed product mix. We have started selling some more point 8 mm in addition to the pickup again because the proportion of 1mm is going to increase further. So this growth that you are seeing is likely to now continue for a faster pace in 1mm compared to 0.8mm. Going forward, domestic laminate should have a similar realization to last year if not more.
- Neha Talreja:** Okay sir, this similar side we are seeing with the plywood also...
- Sajjan Bhajanka:** In plywood if you see the realization is not drastically down. It is marginally down.
- Keshav Bhajanka:** There is increase in Sainik sale because the cost of Sainik is less and like realization is also less because Sainik sales are picking up and it is as per our strategy because we are supporting this brand and we are creating some dedicated dealer for Sainik to take care of post GST era.
- Sajjan Bhajanka:** Realizations are substantially down only in face veneer or commercial veneer. That was because fresh goods were not coming from Laos and most of the goods we sold were of lower grades.

Neha Talreja: Okay, so it is basically not with the like to like product, it is only to do with the change in the product mix.

Sajjan Bhajanka: You are seeing the whole segment, but if you see the plywood as such it was only marginally down.

Neha Talreja: So the flat question from my side would be - how do you see the outlook for MDF segment going forward because we have seen other players starting to export into the other markets because there could be an oversupply situation that is being highlighted by other players. So if at all you could give your view on the MDF market in the coming future.

Sajjan Bhajanka: I am not convinced that due to one constant they are exporting. It is like strategic export. It is not due to the demand. And India is still a net importer and import was so much that government has to import anti-dumping duty from Laos and Indonesia. So still our segment is like 70-30 divided. Import is not less than 50% of our own production. Apart from these our competitor is exporting MDF to some Middle East country, they want to create a market for their upcoming South India plant. And I am sure and they have also said they are not making any profit out of that.

Neha Talreja: Right sir. Sir, we would be targeting the domestic market and we see ample growth opportunity.

Sajjan Bhajanka: Because for us, export opportunities are less because we are in North India, which is land-locked. So for us, like competitive product, import product would cost more, it will come either at Kolkata Port or Kandla Port and all the way they have to take it to North India, whereas we are present there and if we export from North India then we have to move the material again to either the Kolkata port or Kandla port, so again that will cost more. So North India, more or less Northern factories would like be on the domestic market and if any capacity comes in South, but I don't see any valid reason to export.

Keshav Bhajanka: In the domestic demand the direct competition that MDF has is in the lower-end plywood that is of good quality selling at Rs. 50 to Rs. 55 per square feet. Going forward, that plywood is going to become far more expensive in the short duration because in GST the cost of manufacturing that plywood because the disclosures cannot take place or tax arbitrage cannot take place. The cost of unorganized sector lower-end plywood will increase. We should further benefit and enhance the base of growth of the MDF segment; so I think with that next year there should be a further growth in the market and we should have ample room to enter.

Moderator: The next question is from the line of Ajeet Motwani from Bharti Axa Life, please go ahead.

Ajeet Motwani: I could understand the tax incidence in GST where you could save about 10% to 12% but just wanted to understand the competitive dynamics. Let's say there are two modes of

manufacturing of plywood – one is while you import the logs and another is the one which buy the **agroforestry** wood. How would the competitive dynamics or let's say the incidence of tax change between you and let's say an organized manufacturer who imports and manufactures plywood and secondly against a guy buy the **agroforestry 37.24** wood and manufacture the plywood. Under the two modes, how will the tax structure or let's say the competitive advantage change?

Sajjan Bhajanka:

Still in the organized sector the percentage of import is very high and unorganized they basically import either little bit of the adhesive or face veneer and that also they are not directly importing. So they are sourcing it from we people and more particularly from Century or there are some who have started production in Myanmar; so from them and the rest entire core and everything it is plantation wood and there are now a variety of plantation wood come up in India. So there is some hard wood, some soft wood. We are also sourcing Indian wood like **(Inaudible) 38.22** or this eucalyptus and for certain products we also use it and then we import core from Myanmar because we produce a lot of core for our factory so for the organized player the import component would be there and it will continue for some time and may be forever. And for the domestic player to be precise it is only face veneer that they are buying from the importers.

Ajeet Motwani:

In which case let say your incidence total tax as you said will come down from 30 to 18 or maybe say 20, wherein your cost of sales will come down by 10%, for a guy who is import from an organized sector who is manufacturing locally, will his tax incidence go up in GST?

Sajjan Bhajanka:

It will go up because so far they were selling and after that they were destroying the documents. So somebody has sold from say Ludhiana to Bombay and after the material reaches Bombay, he will ask "did you get the metal material? He will say yes, I got. He will say okay then you destroy this document, we too destroy this document." In GST, the first they have to take registration, it will be on a portal directly connected with the special distinct where they have to first deposit duty and after that against that duty only they can issue chalan and it is once recorded it cannot be undone later on and so there would be push also for the full compliance, there could be some under evaluation. Again, another deterrent for undervaluation is buyers, dealers because their component is only 5% and they have to pay additional duty on that 5% only, so that will tantamount to hardly 0.9%, if it is to say 18%, if it is 20% then it will be 1% so for 1% now a days nobody wants to take hassle so they will insist on full billing so that they need not made maintain any accounts other things and like this things so there would be pull from the dealers and at the same time there would be push from the imported material and at the same time like the procedural this thing compulsion because earlier they could have undone the transaction which is no more possible now.

Keshav Bhajanka:

As you said, it was a biggest disadvantage earlier it is the fact that excise duty was not a benefit, was not an input tax for a retailer. Going forward, the total percentage of GST will be

the input credit, so that is going to be very very big factor in convincing them not to party in arbitrage that is arbitrage not to part taken low evaluation.

Ajeet Motwani: So at the dealers' level would the differential which was let say about close to 25% to 30% today, would it come down to barely like 10%. Dealer level, let say if a guy who manufactures, assuming that this quality of the plywood is same let us take your Sainik one assuming that the quality is same would the cost differential between you and organized will come down?

Sajjan Bhajanka: It will be breached substantially because now almost from the cheaper product to our product, it is 1:2 and still people are buying at that rate from us and like with these their cost will go up minimum by 10%. Our cost will go down minimum by 10%, so this gap would narrow down to below 25% to 30%, then on the merit of better quality after sales currently better brand equity, so with all these factors we shall be able to sell much more and then this second our like secondary line products which are already 15% cheaper than our Prime, so there will be in direct competition to them.

Ajeet Motwani: Got it, in terms of the MDF plant usually how much time it should take to ramp up to let's say 18% 19% utilization?

Sajjan Bhajanka: Like automatic line, non-stop country press. So, once it is functional it has to run at full capacity. There can be breakdowns; so initially there could be some teething trouble and there could be some stoppage but once it is fully commissioned it is more or less non-stop, it runs to the almost full capacity and it runs round the year and round the clock.

Ajeet Motwani: The fact that you have been saying that you will also be targeting the retail channel B to C channel for it, how are the preparations that you have laid because in 9 to 12 months' time that plant would be up and running.

Sajjan Bhajanka: We have already appointed exclusive people for MDF and particle board so as particle board is commissioned they have started marketing it and then the channel is more or less common for both the things. The same people are selling plywood, particle board, MDF, so there is not much difference. So we have almost 18,000 retail counters all over the country and network of more than 2000 dealers, distributors and so that network is there and many of them they demand these products from us. So there won't be much problem in marketing MDF and particle board.

Ajeet Motwani: Okay, let say about a year or so to ramp up to about 18% 19% utilization.

Sajjan Bhajanka: We are targeting to start our MDF plant in the month of February and so far everything on line; we have appointed one special agency that is companies realization, they have helped many people to adhere to targets and to achieve commissioning of the plants before the target. So we have assigned tasks to them and for them if they commission this within February they will get

bonus of 50 Lakhs and if they cannot then they will lose the bonus. So as per them things are on target. We shall achieve the first production in February 2017.

Ajeet Motwani: And one last thing - recently there was the news of anti-dumping duty on MDF on Vietnam. Is the rate very different for different countries? Higher on let say Vietnam and Thailand and lower on others?

Sajjan Bhajanka: Even in the same country it is different for different suppliers. Now, they have imposed anti-dumping duty from Vietnam and Indonesia. It was not there in these two countries earlier. So, Vietnam it is more or less flat around \$45 or something per cubic meter but Indonesia there impose three less of duty, they have exempted one company from anti-dumping duty so that is zero duty on that company. On another company they have imposed only \$15 per cubic meter and another company they have imposed \$45 so that is there and so the 15 dollar per cubic meter player is the largest player, Yaodonghua; it is the largest exporter from Vietnam to India. So the impact would be around \$15, this is almost 6% of the landed price. Now almost all the country is covered under this thing, only some New Zealand or Australian companies otherwise also their product is very costly, so that is otherwise also on the merit not imported in India, but all other country Sri Lanka, they have covered earlier so China is attracting the highest duty.

Ajeet Motwani: Okay, so will it be like 6% to 25%, that range of duties is imposed at the landed price.

Sajjan Bhajanka: It is very simple, there are many players from many countries and whatever India needs to import they will manage within the law, let's say within \$15 segment. So the implication would be hardly 6%.

Moderator: Next question is from the line of Prashant Kote from Sundaram, please go ahead.

Prashant Koti: Yes. First thing most of them have been answered, just one thing we have in terms of demand. If you actually look at it, plywood volume demand 18% although it was in a very low base, it is still a pretty healthy number in that sense actually. If you could just give us a sense because you said last year was a little bad. If you could just cite some example over there in terms of how demand is really for the rest of the year as well, both in terms of plywood as well as in terms of laminates.

Sajjan Bhajanka: If you go by our track record, we have been growing at the rate of 25%. So usually it was 15% volume growth and 10% value growth. That has been maintained for many years continuously for (+15) years, but last year it was flat. So there was demand constraint on 2 to 3 accounts one is actually less demand because of the premium housing and other things there is slump deliveries are not taking place, like real estate particularly the niche segment is under pressure and they are our target. The lower segment like low income group housing, they are no doubt target really and so that, there is some demand constraint and like offices, lot of hotels were

coming regularly in the past decades so there is little less activity in that sector, so that is one of the reasons and another thing this is housing for mass this thing that thing, what Modi Ji announced another things so still on the ground there is no progress but there would be to my knowledge like a lot of preparations are going on, so things will pickup. The third very important thing which was keeping us behind was the vast gap between the organized and non-organized. So this price gap was killing us, so this year things are better because we have seen that we are growing already by 10% and with GST I think this gap will narrow down and that will widen our market.

Prashant Koti: Okay, I understand typically on the organized to unorganized part with regard to the GST part as well, but in terms of demand from the real estate I guess it is still pretty muted so that sense we will still not be.

Sajjan Bhajanka: We are not satisfied with 10% growth.

Prashant Koti: Right, so in that sense actually from talking about plywood 18% for the rest of the year, don't we anticipate more than a 10% kind of growth rate or kind of a 15% kind of a growth rate number?

Sajjan Bhajanka: The plywood may not be 18% to 20% because one quarter already we have lost but the MDF demand would be a surplus demand, so the total topline of the particle demand would be there and next year onwards with all the things GST thing, MDF, particle board, the outsource materials like second level material from other acquired units. So there is a lot of scope.

Prashant Koti: Also given that a large part of a demand obviously is being driven by the Sainik brand in the plywood part of it, just want to ask in terms of our margin performance. If you look at it for the last couple of quarters it has been pretty much where it has been, so we have still kind of maintained the EBIT margin for plywood at about 15% or so. Just want to understand over here our margin take because obviously we are going to be pushing a lot of Sainik going forward as well and obviously towards the end of the year we also going to have MDF as well. So just wanted to understand, is there a margin dilution anywhere in the cards further from here on or how do we look at it in terms of our margin scenario?

Sajjan Bhajanka: MDF margins would be better because like with the anti-dumping and other things and particularly EBITDA margin would be much better because it will be a new plant and interest depreciation that will have still there is profit beyond state interest depreciation also. So that way MDF will not put any pressure on margin and like yes it is a cheaper product and the profitability at the moment in this Sainik is less in comparison to our prime product; but with other thing like GST and increase in volume, we are targeting to create this new segment and new brand keeping the post-GST era in mind,

- Prashant Koti:** Okay, but if I may ask, you just said EBITDA margins are better in MDF. What will be the margin differential there in terms of margins you are talking about?
- Sajjan Bhajanka:** There are three main components in MDF – one is timber, another is adhesive and power is also one of the important things. So power price is also subdued; through energy exchange we get cheaper power. Timber price has come down almost to 60%. So there was a time when timber for this thing was Rs. 5 per kg, now it has almost come down to Rs. 2.5 a kg or you can say Rs. 4.5 to Rs. 2.5-3, so around to 60% level. So there is saving in timber. Glue being a petroleum product, prices have come down and urea price like in the open market has substantially come down. We are buying urea for our glue making at Rs. (+30), now the landed price is Rs. 22, so that way the glue cost has come down. Power cost has come down, timber cost has come down and our selling price has to be in competition with the imported price plus anti-dumping plus all the expense, logistic cost, plus the basic import duty; so our immediate competition is that segment. So that way we are at an advantageous position.
- Prashant Koti:** To a large extent because of these inputs actually coming down you actually benefitted by it; but technically if you ask on an apple-to-apple basis the margins actually will be lower in MDF versus plywood, is that the right assessment?
- Keshav Bhajanka:** The EBITDA margins in MDF are higher and I think EBITDA margin in MDF you can look at about 30% close to going forward. That is substantially higher than plywood. However, there is a high component of interest and depreciation and then the first couple of years may be the PAT percentage might not be the same; but going forward definitely we will have a higher PAT percentage as well.
- Sajjan Bhajanka:** Interest front there is another tool now - buyers' credit; so we are importing all the machines and we shall be having buyers' credit for 3 to 5 years and then other than the hedging our direct interest cost would be to the tune of 2% to 2.5%. We are little bullish on rupee, so we think that it will be stable for some time to come and with the Indian economy strengthening, if it does not depreciate much our interest cost will be very limited.
- Prashant Koti:** I am sorry sir, I just missed the part on you said the domestic realization for laminates was lower. I missed that reason for it actually; why was it lower sir? I am sorry, you just said it is product mix, if I am not wrong.
- Keshav Bhajanka:** Yes product mix.
- Prashant Koti:** Entirely product mix.
- Keshav Bhajanka:** Yes, we introduced our new category that is 0.8 mm, so almost it is being sold at 55% to 60% price of the 1 mm. It was partly due to that and partly we could not export some material in the

last quarter due to the Ramadan; so this inventory was lying with us which was already exported in early July.

Prashant Koti: Okay, how much is the proportion of that 0.8 mm in the overall domestic sales?

Keshav Bhajanka: You see last year in first quarter we barely sold any 0.8 mm and back of this year we had a higher percentage. Because of that you are seeing there is a slight drop but going forward the realization figures should scale back to the same level that was earlier or maybe even slightly higher over the remaining course of the year.

Prashant Koti: Okay, so it had been increase the sale of the 1 mm again.

Moderator: The next question is from the line of Achint Bhagat from Ambit Capital, please go ahead.

Achint Bhagat: I have a question on Laos. Just wanted to understand how much capital you have already committed there and how much capital will you commit for the plyboard expansion, both in the JV format and when you setup your own capacity.

Sajjan Bhajanka: We have a partner there; so at the moment our total capital involvement in Laos of around 18 crores is fixed investment we have made by way of share capital or share application and the working capital is contributed by way of advance against supply of goods. So 18 crore is ours and similar amount is invested by our local partner also - that is about the timber peeling business only. There is some bank limits at Singapore to the tune of 5 million. So all together may be it is around 100 crores.

Achint Bhagat: 100 crores I did not get that.

Sajjan Bhajanka: It is if borrowing from Singapore our own country you sell, our own advance to that you need against the supplies like we give them money and then the supply from there. So that way we are giving advance to them and then our partner they have also invested so all together around 100 crores.

Achint Bhagat: But that is only for the peeling unit right?

Sajjan Bhajanka: All six units because 3 units are not belonging to us; land and shed they have provided. So there we have provided only peeling machine, boiler and dryer and the cuttings. So in three units that is the module, in one unit we have established 5 peelings, in one unit we have established 2 peelings and in another unit 2 peelings. All together 9 peelings in 5 units and electricity, building, land are of some local sawmills, so using their license with them we have tied up. We have given them machine, they have constructed the shed and timber they are supplying - so that is the arrangement. And then the fourth unit is another area on similar terms. Shed is supplied by them, we are giving machines and we have agreement. And two

units we have constructed buying the land so one unit in technical joint venture otherwise fully ours but one of our employee because of the condition of the 50% local we have taken our local employee is a local director and one unit in FDI route.

Achint Bhagat: Okay, so what is the cost that you will incur to set up these two plywood capacities and what will be the installed capacity?

Sajjan Bhajanka: My total capital cost with these machines other things we have so it would be somewhere between 100 to 120 crores, like with our partner and we together.

Achint Bhagat: Yes, but the technical GV is practically your investment, right? Basically Century will invest close to 100 and 120 crores in Laos for setting plywood units, right?

Sajjan Bhajanka: Not Century. Century's investment would be around 60-65 crores fixed investment.

Achint Bhagat: And what will be the capacity of this plywood unit?

Sajjan Bhajanka: Plywood unit it would be 20000 cubic meter per day. 20000 cubic meter per day is around 80 cubic meter per day and that will consume the entire phase generated in Laos by our old units. Entire core generated by all our units would be consumed in that unit and there we are not putting up many peeling lines. Only one peeling line we are putting up in that unit and then the pressing capacity and then phase we shall be exporting out of Laos mainly to India and core of all the 5 factories we shall be consuming in that factory.

Achint Bhagat: Right, so that seems like a relatively large capacity for a market; so where does all that material go?

Sajjan Bhajanka: That is not very large capacity. It is 80 cubic meter per day; now India we are manufacturing more than 600 cubic meter per day.

Achint Bhagat: Yes, so where does the production go? Will you supply it in the nearby market or will you import?

Sajjan Bhajanka: No everything we will bring to India.

Achint Bhagat: What will be the cost of bringing that, including logistics, from Laos to India as opposed to manufacturing the same plywood in India? What will be the difference in the cost?

Sajjan Bhajanka: There timber cost is much less and logistics cost is there; but when we sell manufacture plywood there then there is no export duty, which is there on veneers so that we must be saving. Again the logistics cost on core and face it is the same, tax burden on core and face it is the same; it is cubic meter wise. So that way core is a much cheaper product and if it is

manufactured and then the manufactured product there would not have any export duty, so that way virtually that material we shall bring at zero duty.

- Achint Bhagat:** And just last question on this that you mentioned that it is close to 20.
- Sajjan Bhajanka:** Yes another thing; Laos is part of ASEAN and there is zero custom duty on any import from Laos.
- Achint Bhagat:** Last thing, if you want to set up the same capacity in India, I think the cost will be materially lower as opposed to the 120 crores you are saying, right?
- Sajjan Bhajanka:** All the machines we are sending from India. That way on the shipping freight on the machines and then all technicians are going from India and many of the staffs run those plants have been sent from India because we have reduced veneering capacity in India. So we have surplus staff mostly absorbed in Myanmar and Laos.
- Achint Bhagat:** What is the 120 crores investment for if you are sending the machinery from India?
- Sajjan Bhajanka:** That is the cost of the machinery because the machinery we have sent all are newly purchased.
- Keshav Bhajanka:** 120 crores is the total capital investment in Laos across all units, it is not for the plywood units.
- Achint Bhagat:** Okay, so 120 crores will be inclusive of all the units.
- Sajjan Bhajanka:** All the units, all 6?
- Keshav Bhajanka:** Yes, not just for the plywood.
- Achint Bhagat:** Yes, that was what I was wondering.
- Sajjan Bhajanka:** All the units are very cost effective because in one unit we have got the land on long-term lease 60+30 from government, so there is no cost on this thing. Four units are under local arrangement where the land and shed and electricity connection are provided by a local partner and another unit where land is provided by our partner that included in that \$48,000 which we have agreed to pay her for the whole year.
- Achint Bhagat:** Okay. So basically the incremental investment on setting up only the plyboard manufacturing except the peeling unit is only 20 crores, right?
- Sajjan Bhajanka:** Yes, for one pressing line it is 20 crore. There we are putting up only one press of 20 daylight. Earlier in India usually presses were of 10 daylight; so the capacity is double that of single



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August 04, 2016*

press of 10 daylight and 20 daylight which we shall be able to manufacture 80 cubic meter per day.

Moderator: Ladies and Gentleman, due to paucity of time that was the last question. I would now like to hand the conference over to the management for their closing comments.

Sajjan Bhajanka: Friends, thank you very much for taking interest in our company and keeping a track of it and supporting us and reposing your faith in our company and what we can promise to you that to the best of our capacity with the full integrity we shall work to generate value for our share holders. We shall work with the highest ethics in business and so far I am very happy to tell you virtually our company is litigation free, virtually there is no litigation except some small technical litigation in income tax and excise. There also all the interim judgments are in our favor; so that way we shall keep on delivering value, adding value and keeping the image of the company beyond anything and we shall aspire to keep it number one plywood company in India. Thank you very much.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us and you may now disconnect your lines.