



“Century Plyboards (India) Limited  
Q1 FY2024 Earnings Conference Call”

August 07, 2023



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**Moderator:** Good day ladies and gentlemen, welcome to the Century Plyboards (India) Limited's Q1 FY2024 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Navin Agrawal – Head, Institutional Equities at SKP Securities Limited. Thank you and over to you Sir!

**Navin Agarwal:** Good afternoon ladies and gentlemen. It is my pleasure to welcome you to the financial results conference call on behalf of Century Plyboards and SKP Securities. We have with us Mr. Sanjay Agarwal - Managing Director and CEO along with Mr. Keshav Bhajanka - Executive Director, Ms. Nikita Bansal – Executive Director, and Mr. Arun Julasaria – Chief Financial Officer. We will have the opening remarks from Mr. Sanjay Agarwal followed by Q&A session. Thank you and over to you SanjayJi!

**Sanjay Agarwal:** Thank you NavinJi for hosting the concall for Century Plyboards. Good afternoon friends. Thank you everyone for taking out your valuable time for attending the Q1 FY2024 investor conference call for Century Plyboards (India) Limited. I am Sanjay Agarwal, MD & CEO of the company. I have alongside with me Mr. Keshav Bhajanka, Ms. Nikita Bansal – Executive Director, and Mr. Arun Julasaria – CFO of the company. I presume that every one of you would have gone through our numbers in detail. Let me still brief you on the key highlights for Q1 FY2024. Results for Q1 of FY2024 are in line with prevailing market scenario. On year-on-year basis we could hold up our topline. Results are not comparable quarter-on-quarter basis as fourth quarter is historically best quarter. On year-on-year basis the topline is almost maintained at Rs.882.39 Crores against Rs.881.48 Crores, blended EBITDA margin stood at 15.9% against 17.2%, profit after tax was Rs.84.11 Crores against 96.47 Crores. Despite difficult market situation plywood has done well with improvement in topline as well as EBITDA margins. On year-on-year basis the topline improved from 474.75 Crores to 488.57 Crores and EBITDA margins improved from 10.4% to 13.6%. We expected 6 to 7% volume and approximately 2.5% price hike. We expect 8 to 10% growth with sustained EBITDA margin of 13 to 14% approximately after taking care of increase of raw material prices. Increase of raw material prices in laminate for addressing need of high-end market we have partnered with celebrity designer Manish Malhotra and have launched new range designed by him. For economy market we have introduced Sainik laminates. In current quarter we incurred expenses for launching these new ranges, benefit for which will come in coming quarters.

While gross profit on year-on-year basis was almost flattish the EBITDA margins reduced from 13.4 to 10% mainly on account of aforesaid launching expenses. With introduction of



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new ranges for targeting specific new market segments the overall performance of laminate division will improve in coming quarters. We expect annual growth of 12 to 15% and EBITDA margin in the range of 13 to 15%. On Y-on-Y basis MDF revenue improved from 155.60 Crores to 166.77 Crores and EBITDA margins are reduced from 34.9% to 26.2%. The margins are reduced mainly due to increase in raw material prices which could not be passed on. In order to improve profitability company is focusing on value added products. The volume of premium MDF is planned to increase by 40%. We shall also be launching fire resistant MDF which apart from all other features like borer proof, termite proof of premium MDF will be ultimate MDF in terms of quality and features. Our second line at Hoshiarpur is now stabilized. With aforesaid planning we expect volume growth of 20% in coming quarters with increased share of premium product margins are likely to remain stable and take care of further increase in cost. Particle board is suffering both on revenue and profitability. On Y-O-Y basis revenue is down from 51.07 Crores to 39.46 Crores and EBITDA from 36.1% to 22.7%. We are trying to combat erosion in profitability caused by increase in raw material prices and market conditions. On Q-on-Q basis while revenue slightly increased from 37.25 Crores to 39.46 Crores, EBITDA margins improved from 18.1% to 22.7%. We expect improvements both in revenue and margins in coming quarters. The scheme of hiving off Logistic (CFS) Division to SPV is still to be finally approved by NCLT and hence effect of the scheme will be given once the scheme is approved. Scheme once approved will be retrospectively effective from appointed date of April 1, 2022. With these remarks I will open up to all the questions and answers to all the people online. Thank you.

**Moderator:** Thank you very much. We have our first question from the line of Rahul Agarwal from Incred Capital. Please go ahead.

**Rahul Agarwal:** Good evening and thanks for the opportunity. Sir two questions firstly on the capex update could you update us across the plants I think for plywood there is a plant expected in northern India expansion plant and within south the laminate and MDF that is my first question?

**Keshav Bhajanka:** So basically in laminate in south India we have slightly delayed our target was to complete the expansion in H1, but now it is looking more likely that we will commission the line in Q3 and this is the reason why we had to tamper our growth projections in laminates. For MDF our objective was to have plant operational by H2 of this year and we are more than on line with the same. So I think we will have commercial production for the new MDF line in the south within this current financial year.

**Rahul Agarwal:** For the plywood expansion in Hoshiarpur?

**Nikita Bansal:** The timeline for that is probably by Q1 of next year.



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**Rahul Agarwal:** MDF Keshav if you could just be more specific like second half are we expecting it to happen in 3Q or 4Q?

**Keshav Bhajanka:** I am trying to get it operational as soon as possible, but yes we should have it early in Q4.

**Rahul Agarwal:** Got it and secondly on margins when I look at margins ex laminates gross margins are down I am assuming this is largely on account of timber and if I look at EBITDA margin ex particle board I think most of them are down, laminates as you explained it is more because of one-off expenses this quarter but just wanted to know will that sustain in terms of recurring expenses in the balance of the year on laminate and on plywood full year if you could help us with margin estimates across all segments that will be really helpful? Thank you.

**Keshav Bhajanka:** In laminates you see the expenses are going to stay because we have created like the MD had said a new prime in Sainik Laminates which we have just launched. We have also launched a new catalogue with a lot of advertisement behind it with a tie-up with Mr. Manish Malhotra being the first such in the industry but having said that the volumes are going to be looking up going forward and I am sure that we will get back on track towards 13 to 15% EBITDA margin over the course of the year. In plywood we have guided for 13 to 15% and I think we are very well on track.

**Rahul Agarwal:** MDF and particle board?

**Keshav Bhajanka:** In MDF and particle board, MDF we have guided that we should be at 25%, we have tampered it to 25%, but I think that we will be able to maintain the same and in particle board we have given a guidance of 20% which we are aiming to achieve.

**Rahul Agarwal:** One small question on the demand in last we spoke on the earnings call in May it looked like ply and laminates were all okay but what has really changed apart from timber going up I understand the delay in new expansion, but from the existing plants purely from a demand perspective what has really changed here?

**Keshav Bhajanka:** So basically I think this interest rate increase or the series of interest rate increases are somewhere hit the ability to transform from house to home. What I mean is real estate sales are good but people are deferring the decision to do up houses perhaps because of the additional burden that increase in interest rates is causing and I think that has led to a little bit of the exuberance that were there in the economy or in the real estate segment to go away as far as building material products are concerned but I think this is a short term phenomenon it should come back on track sooner rather than later.



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- Rahul Agarwal:** I get that. Thank you so much. All the best. I will come back in the queue.
- Moderator:** Thank you. We have our next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Yes good evening. Thank you for the opportunity. Sorry if the question is repetitive. If I look at the last call May 2023 mid-May actually we were talking about say plywood 13% volume growth but now we are slashing it to 6-7%, so what I was trying to figure out is this new guidance is going to the extreme conservativeness that is why 6-7% otherwise have things really materially changed in last couple of months as much to have such a sharp cut in the volume growth guidance across the segments actually?
- Nikita Bansal:** So whenever we give guidance we give a guidance of value, so when we have given a guidance of 13% this time we are saying 10% and that is on overall year basis because of a muted Q1 but our effort will be to achieve 13% because we are trying to make up the shortfall that we had in Q1 compared to our expectation. I think we have done good in Q1, but our expectations were far better so in order to meet up those expectations Q2, Q3, Q4 is going to help us bridge the gap. All endeavors are on, we are already seeing positive signs, but we will have to see how the rest of the year plays out so in order to compensate the Q1 we mentioned 10% not 6-7. I think 6-7 was in terms of volume plus value so if you combine that, it is 10%.
- Achal Lohade:** Yes so 6-7% is the current volume growth guidance for full year while it was 13% in the last call actually for FY2024 so that is why I said substantial cut in the volume growth. If I look at laminate we had clocked about 25% volume growth we have not given volume growth guidance at least in the press release for laminates that is the reason I am asking. The same is the case with MDF 30%, two thirds is 17% volume growth, implied volume growth for FY2024 so I am just trying to figure out A obviously you said that the first quarter performance is not as good as what you were expecting but what I am trying to understand is the underlying reasons why it is because in last few quarters we have done a substantial performance compared to peers so I am just trying to figure out was that due to certain levers which are kind of exhausted and that is why this is seem to be a new normal?
- Keshav Bhajanka:** You seen in laminates the basic reason for this lower guidance is because we are expecting the new capacity to come on board a little earlier and that capacity is now being deferred. In MDF as well the reason for the temper expectation because our line is taking a little longer to streamline. We have faced certain issues but now the line has streamlined so that has impacted and it has deferred our ability to look at higher sales because one quarter we have suffered so I think the impact that you are talking about is predominantly due to the fact that yes there is a slight sluggishness but our capacities have also gotten slightly deferred which

is hindering our growth. I do not think it is a systemic issue at all. I think it is more to do with individual instances.

**Achal Lohade:** Understood.

**Sanjay Agarwal:** I will also tell you one more thing. I must have said that we had an excellent performance in Q4 so once the performance is excellent and too good everybody goes into a little bit of hibernation, so we took some time to recover. So I think we lost a lot in the month of April, but from May onwards we have started gearing up and we have really gained back and I can see that the better is still going. I am very clear that yes we will be able to recover I think within this quarter itself we will be able to recover whatever we have lost so there is no I should say let go or any change in the story or any momentum downwards or something but yes the markets are looking tight and we are trying our best, but I am sure we will be able to recover and go to whatever we have been thinking of say about 13% growth. The 10% we are reviving because the first quarter has really gone below our expectation.

**Achal Lohade:** Understood and just basically on plywood since we have seen a low single digit growth in terms of volume has the industry also seen or industry is actually declined in terms of volume on Y-o-Y basis?

**Sanjay Agarwal:** Very frankly there are no industry data whatever we are talking or anybody is talking I do not think I would like to give you any data about that but our goal is not to go by that or goal is to actually to gain market share from the unorganized and actually we are working on that part itself actually so I really do not see any big reason or any big difference.

**Achal Lohade:** Got it. Thank you I will come back in the queue.

**Moderator:** Thank you. We have our next question from the line of Jojo Shaju from Alpha Invesco Research. Please go ahead.

**Jojo Shaju:** Thanks for giving me this opportunity. Sir my question is what has really changed in the particle board segment so that the biggest players are starting investing in this space and seeing this investment happen what is the outlook in terms of demand and supply in the near term and long term?

**Keshav Bhajanka:** I think particle board has been a promising area for quite some time. However the capexes have been in the form of **(inaudible) 19:20** which are relatively more economical and because of the same it has not been highlighted too much, now with continuous stresses being established by three players, earlier there was only one continuous stress by a company called



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Associate Décor I think it is being highlighted a little more. If you look at it there is already a substantial capacity. The reason for the continuous stresses is because they are more economical, the operating costs are far lower, the standing losses are lower and the ability to give different thicknesses and different sizes is far higher. So now with the increase in the organized market within particle board the number of continuous stresses are coming up and we are all seeing that this is going to be a product category which keeps growing going forward especially with office furniture and commercial users.

**Jojo Shaju:** My second question is like on the strategy part you have mentioned like the demand will be coming from the large furniture manufacturer so when we are looking for players like Merino they have tied up with a larger furniture manufacturer so what is your strategy specifically on this part, so is it any talks going on with furniture manufacturer and on product side are you planning just for the plain particle board or you are focusing more on value added products?

**Keshav Bhajanka:** In India there is tremendous opportunity in all across it is not just large manufacturers there are now a number of OEMs that are getting established and growing in size. Earlier the scale of some of these manufacturers were far smaller but today they have grown substantially and they act as good customers to us, so while we do not have a formal tie-up with any one large manufacturer per se we are supplying to most of the large manufacturers pan India. As such I think going forward the demand for the product category is going to continue to rise, our focus will of course be on premiumization including key laminated and other product categories as we are actively within the particle board space so this is going to be our endeavor now.

**Jojo Shaju:** On laminate Sir what is the kind of growth you are expecting for mid to long term basis and any guidance on long term sustainable margin you are expecting?

**Keshav Bhajanka:** I think long term margin we have always stated as 14 to 16% and going forward you see this is a year of transformation because like I said we have launched new branded laminate category in the form of Century Laminates by Manish Malhotra. We have launched a new range in the form of Sainik Laminates. We are about to launch our toilet cubicle range when the new press commences and we are about to launch a 10 feet tiles which is more towards exports to Europe. So we are entering into a lot of diverse market, it will take some time to stabilize but I am very bullish on a robust growth for laminates going forward. Our attempts will be to achieve 20% plus CAGR as early as next year onwards.

**Jojo Shaju:** Understood. Thank you very much. I will come back in queue.



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**Moderator:** Thank you. We have our next question from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

**Aniket Kulkarni:** Good evening and thank you for opportunity. I had a question regarding overall industry supply in the MDF industry so can you give an idea on how this suffice currently and how much is going to come up in the next couple of years with all the players basically an additional capacity?

**Sanjay Agarwal:** You are asking about the total capacity increase in India?

**Aniket Kulkarni:** Yes India.

**Keshav Bhajanka:** There are going to be smaller **(inaudible) 23:20** that are coming up. Meaningful capacity is being added one Globe Panel is already commenced, Action TESA is coming with a new capacity, we are expanding with new capacity in the south and Greenpanel is expanding another capacity in their plant in Srikalahasti, so with all of these the total capacity for MDF in India is likely to increase more than 30% over the course of next year and half so I think that while this is a very steep increase in capacity the market is also growing and as we have said a number of times before setting up a capacity and utilizing that capacity are two different proportions so we are confident that we will able to gain market share and ramp up our capacity utilization faster than others.

**Aniket Kulkarni:** If it is possible to give any sort of data points as to what is the current demand and supply in terms of cubic meters like what is the current situation right now as of today and how will these figures be when the additional supply comes in the next couple of years?

**Sanjay Agarwal:** Are you asking for numbers for the all India?

**Aniket Kulkarni:** In terms of cubic meters.

**Sanjay Agarwal:** Approximately I do not have exact numbers but approximately it is about 2.1 million cubic meters within capacity and I think within the next one year time it is going to become about 3 million.

**Aniket Kulkarni:** Three million right?

**Sanjay Agarwal:** From 2.1 it will go to about 3 million but these are not exact capacity but we will be little bit of here and there but yes that it was.





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- Aniket Kulkarni:** That is quite helpful. Thanks for the opportunity and best of luck for your coming quarters.
- Moderator:** Thank you. We have our next question from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.
- Praveen Sahay:** Thank you for taking my question. The first question is related to the MDF. In the press release you had mentioned about the volume of a premium MDF plant to increase by 40% and I can see that.
- Sanjay Agarwal:** There was a reading mistake actually. Presently we are at 34% premium for that it will go to 40%.
- Praveen Sahay:** So by when Sir this 40% contribution from premium?
- Sanjay Agarwal:** We have already started working on that but it is a journey so I think we could be seeing this kind of a result within a year's time, so it will go from 32 to may be 33, 34, 35 that is how it will rise but yes we will try to reach 40%.
- Praveen Sahay:** Thank you for that. The next question is related to the laminate so can you quantify the expenses what you had mentioned due to new launches there is expenses which lead to a correction in the margin in laminate so how much is that?
- Keshav Bhajanka:** There are two types of expenses. The first expense is going to be in the form of new trade expense, in the form of branding, in the form of advertisement and the second is in terms of recurring expenses such as hiring additional space so I would say that the one-time expenses would be in the tune of Rs.3 to 4 Crores; however, even though one time is going to be repeated in the form of higher ad spend because in the last quarter we only advertised for about 15 days this quarter onwards we are going to advertise for the entire quarter for the next two quarters. In terms of manpower spend, etc., I think it is going to be 1 to 1.5 Crores which is going to be a recurring expense.
- Praveen Sahay:** Just to add on this laminate business I can see that the average realization has gone down any specific reason for that?
- Keshav Bhajanka:** Yes there has been a change in the product mix from domestic towards export and our export realizations are lower than domestic realization, hence there is a fall in the overall realization. Going forward as domestic gains more traction with new product launch in the Sainik range I am sure realizations shall also continue to increase.

- Praveen Sahay:** What is the contribution of exports Sir?
- Keshav Bhajanka:** Today the contribution of exports would be 50% plus.
- Praveen Sahay:** Thank you Sir I will come in the queue.
- Moderator:** Thank you. We have our next question from the line of Keshav Bijayratan Lahoti from HDFC Securities. Please go ahead.
- Keshav Lahoti:** I was asking on the particle board side, so again if you are increasing the capex amount in this quarter also whether the equipment cost has again increased, this is a second quarter of increase?
- Keshav Bhajanka:** So the earlier was an estimate and now this is a frozen cost and yes due to the increase in Euro there have been certain exclusions in the price of machinery as you know the currency rates have fluctuated and we are provisioning for a slight higher currency rate compared to earlier.
- Keshav Lahoti:** Sir my question is you know the industry leader is planning to cut the MDF price by 5% to 10%?
- Sanjay Agarwal:** Industry leader means.
- Keshav Lahoti:** MDF green panel so by changing?
- Sanjay Agarwal:** I have not heard that they are going to cut the prices. I do not expect that they will cut the prices.
- Keshav Lahoti:** Cutting by 5% to 10% what they mentioned that they will change the raw material composition according to the cost will reduce so will their selling price so they plan to maintain their margin so are we also planning something some similar strategy on that side?
- Sanjay Agarwal:** See what I believe that there might be more competition in the Southern zone because Greenply has come up with this new plant so they might have reduced some prices in the south whereas we have not reduced any prices neither in North nor in South and we are able to hold. As far as you are seeing the raw material mix currently there is no miracle as far as raw material mix change is concerned. It is one or two species of timber being used by all of us and we all buy from the same market because none of us has our own plantation, which certainly helps the agriculturist to plant more trees but no one of us actually owns any



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plantation so I do not think that there is any way of reducing the cost of raw material there is no other way. The only way is to reduce the density of the board so it is possible that they are coming out with a new range which has a little less density so if you have a little lesser density in MDF board the usage will change so it may be useful into certain usage but it will not be useful into at least the furniture side of it or any other usage. We will see when it starts whenever it happens but yes presently we do not have any plans to introduce any lighter MDF at the moment we do not have because it is very difficult. A plant of that size to really reduce and have two or three types you already have seen the premium types and then we have the regular size, now if you start manufacturing another it will add to cost actually because the production will reduce, we will have to change more often, inventory will go up in all the different sizes and the prices so it is not necessary that the small change or change in density or say may be 40kg to 50kg will really reduce the cost.

**Keshav Lahoti:** Got it. One last question from my side. Have we seen any sign of demand revival in July or early August?

**Sanjay Agarwal:** I think that demand is already reviving a little bit but yes still the rains are very, very heavy so I believe that yes but I can see certain emanating of demand actually in the markets and I believe by the end of August or in September is actually revival of demand actually are doing quite well.

**Keshav Lahoti:** Got it. Thank you. That is it from my side.

**Moderator:** Thank you. We have our next question from the line of Raj Mehta from RoboCapital.in. Please go ahead.

**Raj Mehta:** My question is that when can we see the margins recovery by like can I get any timeline early expectation?

**Sanjay Agarwal:** For which category are you asking?

**Raj Mehta:** Overall category.

**Keshav Bhajanka:** Because of plywood like we said we already in line with 13% to 15%. In MDF our target is 25% and we are there or a little higher. In laminates we are have said that by the end of the year we should be at 13% to 15% again and in particle boards we are already doing 30% plus so this is the guidance that we have given.

**Raj Mehta:** Alright.



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**Moderator:** Thank you. We have our next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

**Nikhil Agrawal:** Good evening Sir and thank you for the opportunity. Sir I wanted to know if you could throw some light on the international MDF prices?

**Sanjay Agarwal:** If international prices are down and India has started importing some quantity I believe about 25,000 to 30,000 cubic meter of MDF is now coming into India per month but that happens mostly in the South region that is why we in the North India we are not affected so much till now plus the international markets are not very good at the moment. The rise in price is mostly because of the freight the freight has really gone up and now the freights have already come down so there was not really a big jump as far as the prices were concerned in the international market so they basically are there where they used to be. The freight had gone up now the freight has come down.

**Nikhil Agrawal:** If I recall in the last quarter you had mentioned that international prices were up by about 7% or something had gone up all of a sudden?

**Sanjay Agarwal:** I must say that 5% to 7% here and there but even 7% price rise is good, maybe the import would have gone from 30,000 cubic meters to 40,000 cubic meter which has not gone up to that. We just maintain at 30,000 cubic meters just at 7% is nominal I must say as far as India is concerned.

**Nikhil Agrawal:** Basically whatever increase was there during that time it has lapsed it has come down to those previous levels right?

**Sanjay Agarwal:** But that 7% increase even after the fall and that has been maintained in the international market but most of the quantity comes only in to Southern India because the local domestic transport cost from South India or West India to Northern India is very high so that is why you see that we are still not affected at all.

**Nikhil Agrawal:** Understood Sir and I think I missed out on the volume and the value growth if you could repeat it or if you could just mention it again?

**Sanjay Agarwal:** For which category?

**Nikhil Agrawal:** All categories for FY2024.



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**Keshav Bhajanka:** I would be looking at a 10% growth by value. In laminate we will be looking at 15% growth, in MDF we will be looking at a 20% plus growth and particle board we will be trying to maintain the same volumes as last year, realizations could be slightly down due to the fact that we have taken a price correction.

**Nikhil Agrawal:** 20% plus growth in MDF and 15% in laminates these are value growths?

**Keshav Bhajanka:** Yes.

**Nikhil Agrawal:** Lastly I just wanted to understand like now we have Greenply with laminate?

**Keshav Bhajanka:** Sorry MDF 20% is volume growth and laminate also the 15% we are targeting is both value and volume.

**Nikhil Agrawal:** Like 25% to 15% the decrease in the revision and the guidance is just because of the delay in the new capacity?

**Keshav Bhajanka:** It is due to two things. Yes there is a slight weakness in terms of the market scenario. It is not as robust as we had earlier expected and the first quarter has been a little weak but it is mainly due to the deferment in the capacity addition.

**Nikhil Agrawal:** You maintain your margin guidance right all across?

**Keshav Bhajanka:** Yes.

**Nikhil Agrawal:** Great and one last question now we have the Greenply which has come up with their capacity, we have Action also coming up with the capacity so of course there is some pressure on the supply like there is an excess supply in the market so do you feel the need to cut prices going forward?

**Keshav Bhajanka:** I think at the end of it the price war leads to a disaster for most of the present world and I think we have the strongest financials in the industry so we are the ones who will be affected the least but having said that right now we are not really seeing too much of a trend. We will have to stay by the year and see how things continue but setting up a capacity and utilizing a capacity are two separate things. The ability to reduce price is something that everyone has, but at the end of it everyone needs to service that and everyone needs to be profitable so we stay by the year.



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**Nikhil Agrawal:** Because the feedback I got from the market was that Greenply they are selling at about 4% to 5% lower than the normal prices by Century and Greenlam?

**Keshav Bhajanka:** Any newcomer will sell a little bit lower that is very normal thing to do otherwise they will not be able to make a mark within the market which is we already have set buyers, we already have our set people in the field, in the market, the brand, so everything matters. They will take their time and once they reach they will also have to increase price, if they do not increase price how will they maintain their EBITDA and profits? The initial time everybody will do it. When we came into the market initially maybe we will also sold I do not remember now but we must have sold a few percent cheaper to everybody else at that time.

**Nikhil Agrawal:** Got it Sir. That is it from me. Thank you so much.

**Moderator:** Thank you. We will take our next question from the line of Udit Gajiwala from Yes Securities. Please go ahead.

**Udit Gajiwala:** Thank you for taking my question. Sir after last results on one of the interviews you were stating that you are positive that there will be some countervailing duty on MDF which might come in just wanted to check what are the current progress going on for the same?

**Sanjay Agarwal:** There is no progress there in that one and very frankly we are also not making much effort about it anymore. We have actually got it approved from the Commerce Ministry and the proposal is lying with the Finance Ministry and if it happens it happens, if it does not it does not.

**Udit Gajiwala:** Got it. Understood Sir. The rest of the questions have been answered. Thank you and all the best.

**Moderator:** Thank you. We have our next question from the line of Hrishikesh Bhagat from Kotak Mutual Fund. Please go ahead.

**Hrishikesh Bhagat:** Good evening. Thank you for opportunity. The first question is if you can help me with the outlook on timber cost especially in Northern India how do you see it, do you think because our press release still talks about price hikes in plywood so do you feel that it is just catching up with earlier timber cost?

**Nikita Bansal:** Sorry I did not get your last part what did you say catching up with..



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**Hrishikesh Bhagat:** The price hikes so it is just catching up with the earlier in the sense covering up the earlier cost increase?

**Nikita Bansal:** Actually around April there was a price drop in raw material cost. We were planning a price increase around then but we delayed it because of the drop and the market was not favorable to take a price hike then. The price started rising from June and it has massively gone up in July. Currently there is a lot of shortage of material, a lot materials also getting imported so there is a dependency on import as well as domestic so currently the next few months you will see this happen particularly during the rainy season so we expect the next few months to continue like this and we have already taken a price increase in July and it is not possible to take such large increases in one go so we are dividing it into one or two parts so we will just take a second part of price increase also but having said that to answer your second question we are only being able to take what is being increased we are not being able to take more increase than what the raw material is increasing.

**Hrishikesh Bhagat:** That is helpful. The second question is related to MDF now Hoshiarpur the expanded capacity was it fully available for this quarter and where I am coming from is a 6% volume growth since tad lower if it was fully available and considering one of our largest players was also under shutdown?

**Keshav Bhajanka:** The capacity is not fully up and running. We have faced certain challenges even though first board was up and running last quarter itself we have taken a little time to stabilize. You will see the benefit of that capacity from this quarter onwards.

**Hrishikesh Bhagat:** Thank you.

**Moderator:** Thank you. We have our next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

**Nikhil Agrawal:** Sir just wanted to know the OEM mix in the India segment currently?

**Sanjay Agarwal:** See ultimately all the premium products the 34% we are talking is going directly to the consumer and the rest of it is mostly going to OEM either directly or indirectly through the dealer. To tell you exactly it is not possible because there is no study but we know that the by the usage so all the premium items are used by now every carpenter and every interior designer is using all these products and they are used by the consumer.

**Nikhil Agrawal:** Got it Sir and just to clarify again you had mentioned that the international prices which had gone up earlier before the last call that has held up till now right?



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- Sanjay Agarwal:** They are mostly holding yes.
- Nikhil Agrawal:** Got it. Thank you so much.
- Moderator:** Thank you. We will take our next question from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.
- Praveen Sahay:** Thank you for the followup question so Madam can you quantify the timber price increase in the month of July?
- Nikita Bansal:** It has gone up by around 5% but we have also seen chemical cost going down and timber cost **(inaudible) 46:31** the raw material so it is about 50% of our total raw material cost and there are other costs as well.
- Praveen Sahay:** We did any import as well?
- Nikita Bansal:** Yes we did. I do not have the exact figure but I think I will get back to you on it but we started importing through the last month.
- Praveen Sahay:** Next question is related to the commercial veneer so what exactly happened there because in the plywood section the commercial veneer section we are seeing a down in the volume?
- Nikita Bansal:** The thing is earlier we used to run the commercial veneer as a segment and which we actually sell it to a lot of vendors across and manufacturers across India. Since the last few years when we repeated this on previous concalls as well that now this business is only to feed our plywood business so that is why we club it more under the plywood segment because it is more for the raw material and the security of that raw material is why we are still included so we only sell the lower grade ones out into the market the rest is all consumed in-house.
- Praveen Sahay:** Thank you for this clarification and the last one on the MDF the growth guidance for FY2024 has been reduced because of the delay in the plant but by the next year we will start with the South plant so we will see a strong growth in the MDF the way forward 2025 onwards?
- Sanjay Agarwal:** This year we have given a growth of 20% and so we will be able to receive it. Next year when the plant comes in I think the production should come by the beginning of Q4 and by the time it stabilizes and we can really make a big impact in the market it will be new financial year and yes once it comes into production it will give a very big boost to us because right now south is not our market. We try to sell the minimum possible because it costs us to sell into the South market. Greenply has reduced maybe some prices and you still sell at our prices at





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higher prices whatever small we can sell. Next year then we will be in competition in South and we will take it head on. It is going to make a big difference and we will be able to export from South also that will also add to the growth. Export may not have much profitability but it will still be a contributor.

**Praveen Sahay:** So export right now is there in the MDF right now?

**Sanjay Agarwal:** Yes. Green panel is still exporting from its plant. We cannot export. From North plant it is impossible to export. It is impossible for an importer to actually bring import and take it to North India they cannot compete with us and similarly we cannot actually export because of the domestic transport cost.

**Praveen Sahay:** So related question Sir in the South you are coming up with the plant in Q4 so have you explored the export market where you are going to go with the South plant which locations?

**Sanjay Agarwal:** Actually export is not our target. Yes we have explored the market, we are already in the process of setting up our team and meeting customers and all that are certainly going on because the plant will be in production very soon as far as but actually export is not our target, our target is to consume the whole production within India. This will take some time so only for that period we will be exporting.

**Praveen Sahay:** Great. Thank you Sir. It was helpful.

**Moderator:** Thank you. We have our next question from the line of Harsh Shah from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

**Harsh Shah:** Thanks for the opportunity. Sir as you said that both the industries particle board and MDF will be growing so what gives you the confidence that in the next couple of years both of these plants that were set up would be utilized optimally and where I am coming from is that I wanted to understand whether any sort of cannibalization that might take place because the applications of both the particle board and MDF are not much difference so if you could give color on it?

**Sanjay Agarwal:** You see one the reason that we are so confident is because we have successfully been able to ramp up our capacities in the past as we have seen. We have struggled in the last couple of years because of the lack of capacity. We have been running at 100% and going forward the demand scenario in India remains robust. If you look at sales yes the wood panel industry right now the demand might not be great but the sale of essential real estate and real estate in general gives us a lot of confidence. The cycle is not about to turn anytime soon. Secondly

MDF and particle board the usages are different. Today particle board the majority of usage is for commercial purposes. You will see office furniture being made majorly from particle board whereas the essential furniture and other essential users, high end offices and other such usages use MDF, so both of these have distinct markets and both the markets have grown and cannibalization does take place but actually MDF and particle boards are cannibalizing the lowest end of plywood rather than each other. Earlier for both those purposes people were using cheap yamunanagar plywood which is low in quality but that was the only option available. Now MDF and particle board are giving people options at lower price points with better quality.

**Harsh Shah:** One related question what will be the market size of the lowest range of plywood?

**Sanjay Agarwal:** We say that 70% of the plywood industry is unorganized and considering that the industry is anywhere between Rs.20000 Crores to Rs.25000 Crores and gives a huge figure for the lowest end it can be anywhere within that 15000 to 17000.

**Harsh Shah:** Thanks for the explanation. That is it from my side.

**Moderator:** Thank you. Ladies and gentlemen, we will now take the last two questions for the evening. We have our next question from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

**Rajesh Ravi:** Good evening. My first question pertains to the particle board would you let us know what is the central market size and then conventional market size and how much of this is being met through imports currently?

**Keshav Bhajanka:** I do not have data on us right now but our CFO will get back to you with the data.

**Rajesh Ravi:** Sure because the import numbers that we check from the government website here hardly any numbers and given the recent inflows even that number when it increased that lead to a correction in the domestic prices and margins for place because you are the only player which is reporting particle board numbers and there we saw the margins softening so there was a concern like big capex from three players yourself, Merino and Green Panel so how would this lead to the margin and the return ratios for the project that your major capex that you are doing so that was the thought and secondly the MDF side?

**Sanjay Agarwal:** Let me answer your particle board first. You must have read in newspaper that Government of India has been considering to bring PLI in furniture, they have not yet approved but they are thinking because they know that furniture is the next big possibility from India so after

China and maybe after Vietnam probably India can become the third or fourth largest exporter of furniture in times to come, so all these exports which will happen will be using mostly using either MDF or particle board so whatever capacity we are building up we know that even if the PLI does not come India has hardly if I talk of say five years back then there may be only 60 or 100 OEMs in the country who were manufacturing furniture, today if you see there may be more than some 2500 or 3000 OEMs are there across the country and we expect that these 2000 or 3000 will go up to 5000 in the next four to five years time eventually so there will be no dearth as far as consumption is concerned. Yes particle board is definitely imported, even exported some particle boards and without any losses and typically the similar kind of prices to neighboring countries even that is also happening and not too much of capacity is coming only just two or three manufacturers are adding up so in the next two years time or maximum two-and-a-half years' time we will see that all these start getting consumed so it is not a very huge capacity is not really coming.

**Rajesh Ravi:** Because what we understand that in this segment there are multiple small, small players and none of the existing players are around more than 5% to 6% of the total market size is this understanding correct?

**Sanjay Agarwal:** You see there are small, small players but the costing of the smaller player as far as the operating costs are concerned are above 8% to 10% higher than us so when the competition starts maybe we are missing a little higher but the operating costs are much lower as far as the wood is concerned or the timber consumption is concerned or whether the handling of losses are concerned, so all those are actually they cannot control and in these automatic plants they are controlled very, very finely, so ultimately the overall quality of the products is also different so it is up to OEMs going to export their products they will have to buy from automatic plants.

**Rajesh Ravi:** Great Sir. That is all from my end. Thank you.

**Moderator:** Thank you. We will take our last question from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.

**Sneha Talreja:** Thanks a lot for the opportunity Sir. Just two questions I am sorry if I may be repetitive here just would like to understand the timeline for the particle board unit and secondly in the laminates division of course you spent a lot because of the new launches so what would we assume as a one-off and what could be the normalized level of margin here?

**Keshav Bhajanka:** As I have already stated in the laminate division a part of the expense is one time but it will be repetitive by higher advertisement cost and the second part in terms of manpower cost is



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going to be repetitive so the advantage you will gain over time is going to be in the form of higher volumes and higher turnover and that will help offset these costs. For particle board we are expecting commercial production within FY2025 obviously towards the end of FY2025 but within FY2025, nonetheless.

**Sneha Talreja:** I just wanted to understand the one-off expenses here I know you said it is partially repetitive and partially gone up but still what would that number be in between?

**Keshav Bhajanka:** Close to Rs.4 Crores at launch cost towards Manish Malhotra brand a new catalogue and towards exports and new geographies.

**Sneha Talreja:** The rest are the increased with the employee cost?

**Keshav Bhajanka:** Yes.

**Sneha Talreja:** Understood thanks Keshav and all the very best Sir.

**Moderator:** Thank you.

**Sanjay Agarwal:** So friends while I am quite excited about the new things being done in laminate division and I am sure this year will belong to our laminate division. Thank you so much for bringing us on this call and taking your time for listening us and asking all the questions. Looking forward to see you next time for our Q2 earnings call. Thank you.

**Moderator:** Thank you very much. On behalf of SKP Securities Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.