



“Century Plyboards India Limited
Q2 FY '24 Earnings Conference Call”

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MANAGEMENT: **MR. SANJAY AGARWAL – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – CENTURY PLYBOARDS
INDIA LIMITED**
**MS. NIKITA BANSAL – EXECUTIVE DIRECTOR –
CENTURY PLYBOARDS INDIA LIMITED**
**MR. KESHAV BHAJANKA – EXECUTIVE DIRECTOR –
CENTURY PLYBOARDS INDIA LIMITED**
**MR. ARUN JULASARIA – CHIEF FINANCIAL OFFICER –
CENTURY PLYBOARDS INDIA LIMITED**

MODERATOR: **MR. NAVIN AGRAWAL – HEAD INSTITUTIONAL
EQUITIES – SKP SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Century Plyboards India Limited Q2 FY24 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 opening remarks conclude. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Naveen Agrawal, Head Institutional Equities at SKP Securities Limited. Thank you and over to you, sir.

Naveen Agrawal: Good afternoon, ladies and gentlemen. It's my pleasure to welcome you to this financial results conference call on behalf of Century Plyboards and SKP Securities. We have with us Mr. Sanjay Agarwal, MD and CEO, along with Mr. Keshav Bhajanka, Executive Director, Ms. Nikita Bansal, Executive Director, and Mr. Arun Julasaria, Chief Financial Officer. Kindly note that during the course of this discussion, there may be certain forward-looking statements which must be viewed in conjunction with the risks that the company faces. We will have the opening remarks from Mr. Keshav Bhajanka, followed by a Q&A session. Thank you and over to you, Keshav.

Keshav Bhajanka: Good afternoon, friends. First and foremost, I wish you a very happy Diwali. Thank you, everyone, for taking out your valuable time for attending the Q2 FY24 Investor Conference Call for Century Plyboards India Limited.

I am Keshav Bhajanka, Executive Director, and I have alongside me Mr. Sanjay Agarwal, MD and CEO, Mrs. Nikita Bansal, Executive Director, and Mr. Arun Julasaria, Chief 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 highlights for Q2 FY24.

The financial results for the second quarter have surpassed the previous quarter, both in terms of revenue and profit, despite a very challenging market situation and an upward trend in prices for key raw materials. Going forward, we expect to continue to upscale our revenue and profit growth. On a Y-o-Y basis, the top line increased to INR987.9 crores against INR900.2 crores, blended EBITDA margins to 15.1% against 13.7% and profit after tax was INR90.33 crores against INR76.22 crores last year.

Despite the difficult market situation, Plywood has done well with improvements in the top line as well as EBITDA margins. On a Y-o-Y basis, the top line improved from INR487 crores to INR541 crores and EBITDA margins improved from 4.3% to 13.5%. We continue to maintain our previous guidelines of overall 10% revenue growth and sustained EBITDA margins of 13%-14% for the second half of the year.

In laminate for dressing, the need of the high-end market, we have partnered with celebrity designer Mr. Manish Malhotra and have launched a new range designed by him. For the economy market, we have introduced Sainik Laminate Boyd, a huge success that we have

received in Sainik Plywood. In the current quarter, we had revenue growth of almost 10% over the previous quarter.

EBITDA margins also slightly improved to 11.7%. With the introduction of the new ranges for targeting specific market segments, the overall performance of the laminate division will improve in the coming quarter. We expect to maintain quarter-on-quarter double-digit growth and improve EBITDA margins. Correction, year-on-year double-digit growth and improve EBITDA margins.

On a Y-o-Y basis, MDF revenue improved from INR156 crores to INR196 crores and EBITDA margins are increased from 25.2% to 26.5%. The EBITDA margins for the current quarter included INR7.5 crores on account of arrears for electricity subsidies. After taking out the effects of this INR7.5 crores, EBITDA margins were 23%. Our second line at Hoshiarpur is now stabilized with the above-said planning, we revise our growth target to 25% for the second half of the year.

With increased share of premium products, margins are likely to remain stable or continue in line with our guidance of 25%. Particle board is suffering both on revenue and profitability. On Y-o-Y basis, revenues down from INR47 crores to INR38 crores and EBITDA from 28.5% to 22.6%, we are trying to combat erosion in profitability caused by increase in nominal prices. On quarter on quarter basis, while revenues slightly decreased from INR39 crores to INR38 crores, EBITDA margins were sluggish. We expect to maintain revenue and margins in coming quarters along the lines of what we achieved in Q2.

The scheme of filing of logistics division to our SPB is approved by NCLP and certified copy of order is awaited. On filing of certified copy of order with the rest of our companies, the scheme will be retrospectively effective from our point to point date 1st April 2022. The ongoing project of MDF and Laminate at Andhra Pradesh will commence operations within the current financial year.

With these remarks, I will open up to all the questions. Thank you so much.

- Moderator:** Thank you very much. First question is from the line of Abhishek from DSP. Please proceed.
- Abhishek:** Hi, sir. Thanks for the opportunity. So just a couple of questions in terms of the plywood part of it. While you have seen decent volume growth, if you can help us understand, is it because of better demand or is it market share gain? And also if you can touch upon the trend in the underlying timber prices. Thanks.
- Nikita Bansal:** Yeah. Hi. So actually with respect to if you saw Q1, I think the growth was muted because the market was muted. So there was definitely recovery of market in Q2 as well as our strategy. We immediately made some corrections in June, etc., everything where we were facing some de-growth in certain branches or we weren't growing as per our expectation in certain products. So even the strategy that helped us recover and that is why we were at 11% growth YTP.

So I think it's both demand as well as some level of market share. But like we said in previous calls, it's very difficult for me to say or quantify the market share gain, etc., because data in plywood industry is almost difficult to capture. So yeah, and as far as the timber prices go, so Q2 saw a major rise in timber because of that we even started importing coal.

In fact, our long-term plan is that we will probably import 50% of our coal requirement from other countries like Brazil, etc. But we were able to do it quickly and that has also helped us actually ensure that the rates of coal does not increase massively. And in Q3, coal rates have started falling in India. So I think that is where the timber prices lie today.

Abhishek: So Nikita, just on the timber prices, 3Q would have seen something like a 3%-5% correction. Would that be a fair estimate or is the quantum higher already in 3Q?

Nikita Bansal: In Q2, sorry, did you say Q2 or Q3?

Abhishek: Q3. You mentioned Q2 was increased but you substituted it by import. But 3Q, I thought you mentioned that you have seen already some price decline. So I just wanted to understand.

Nikita Bansal: So it's been about 5 paisa in terms of percentage. INR0.05 paisa on almost INR2 in 2%-3%, yeah.

Abhishek: Okay, that's helpful. Just coming on to the MDF part of it, if you can just help us understand in terms of you've increased your overall top-line volume growth guidance to about 25%, just in terms of how is Hoshiarpur shaping up overall demand-supply economics and the margin deterioration x of the electricity charges that we have seen, how should we look at it given that timber prices are beginning to kind of correct? Thanks.

Keshav Bhajanka: So basically, as we had stated earlier, that we will ramp up capacity utilization relatively faster. And we have received a very good response from the market from our second line. Earlier, as you are very well aware, that we were facing demand overrun and we had a supply shortage.

So now that has been addressed and we are slowly being able to gain a market share. Now, I think that going forward, even without the electricity subsidy, we will be able to maintain margins closer to a tune of 25% due to operating leverage. However, having said that, raw material price increases remain a concern, although they have flashed over the course of the current quarter.

Abhishek: Okay. But like how you're seeing in case of plywood, some correction. What about MDF? Is something that also on cards over the next second half? Or how should we look at it for the MDF part of the business?

Keshav Bhajanka: There is no meaningful correction, but we are hopeful that it has plateaued out.

Abhishek: Okay. And just one last thing on the MDF part, given the overall supply that we are seeing being put up by our peers, how is the competitive landscape in terms of the underlying price scenario as far as MDF is concerned?

Keshav Bhajanka: I think the competitive landscape has been intense and will continue to remain intense with the new capacity coming in. However, I think we are well placed by virtue of our brand, by virtue of our efficiency in terms of both production and sales. So I think that going forward, we shall be able to scale up faster than the industry.

And we are eagerly looking forward to our under-plant commenting operations over the course of the next quarter. We should get the benefit of the same over the course of the next financial year.

Abhishek: Okay. Got that. Thank you so much for answering my questions. I wish you all the best. Thank you so much. Thank you.

Moderator: Thank you. Next question is from the line of Rishikesh Bhagat from Kotak Mutual Fund. Please go ahead.

Rishikesh Bhagat: Hi, good afternoon. If you can help me understand this increase in inventory, it pertains to which segment and when should we expect normalization? Your fair bit of cash generation is impacted because of this inventory increase.

Keshav Bhajanka: Hi. If you look at it, the Romgale inventory has actually come down from Q1 to Q2. And the finished goods inventory has come down as well. So what part of inventory are you referring to?

Rishikesh Bhagat: I am referring to cash statement, cash flow. So there is an increase in inventory that is getting reflected in cash flow statement.

Keshav Bhajanka: That will be related to the total turnover, right? Because our turnover has also increased compared to last quarter. So if you look at inventory days, we have actually reduced inventory days.

Hrishikesh Bhagat: Okay. Okay. And the second question is on particle board new capex. Now one of your peers rather new entrant, Greenlam has recently increased the capex for this particle board from INR600-odd crores to INR770 crores. Their capacity is more or less at the same level, 2,35,000 to 2,40,000 CBM. And in our presentation, we have maintained it that. So we are fairly confident that we will be able to execute at INR550-odd crores capex, this entire particle board capacity.

Keshav Bhajanka: I think, pretraining there will be unfair me to comment on competition, but if you look at the way that commodity prices that are very relevant for any new capex in our industry confirm steel and others, the peak, hopefully is behind us. And we have faced an increase in the capex for another project because of the timing of the project so to speak. So I am hopeful that again, we will be in line with our guidance. We would be in line with guidance we see no stocks as of now. We'll be very happy to...

- Hrishikesh Bhagat:** About you only. I have more concern about your project sir.
- Keshav Bhajanka:** But I wanted you to also know that the Chennai project is proceeding very well. And we will hopefully begin sooner than expected.
- Moderator:** Thank you. Next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.
- Rahul Agarwal:** Keshav, first question was on MDF and particle board actually for South India plants. Given this raw material problem and availability and pricing for large capacities which we are setting it up, could you just give us some sense on how have you tied up on raw material sourcing and pricing, let's say, for 12 months or 24 months, what our outlook you can share, please?
- Keshav Bhajanka:** Sure, sure. I think that if you look raw material in India, it is not really very possible at this point in time to go to your own plantation. But what we are doing is we are rapidly promoting plantation in the districts a jointing to apart. So if you look at Kadapa District, we have already started distribution of sapling. And going forward, we are educating farmers due to the higher raw material prices, agroforestry actually becomes the much more viable alternative. You can imagine like earlier when the price of timber was INR2.5 in Punjab when we were starting. And today, the price of timber short to INR6 plus.
- The remuneration for the farmers has drastically changed. So I think that the supply is going to catch up with a lag. In the short term, there will be challenges. But like I've stated a number of times earlier, we are the most efficient executor whether the production or sales in this industry that bodes well for us.
- Rahul Agarwal:** So should I assume that once these plants start, let's say, around fourth quarter of this year, 12 months from there the availability of raw material should suffice and we should not face any supply problem. Is that taken care of?
- Keshav Bhajanka:** Yes, I think you heard this more question of price than availability because the demand in -- the supply is ramping up very fast, you'd see that in the short term, there will be spike. But that spike is required. We need to promote agroforestry and the best way because no matter how much you subsidize, no matter what rate you sapling for, even if companies start getting more fertilizer, their end result has to be a sale, then the farmer makes a lucrative income.
- So at the current raw material prices, agroforestry is increasing, which is a very positive step for the long term. And we are hoping that, yes, [indiscernible] does not increase too much, but I'm hoping that timber prices don't reduce much further also.
- Rahul Agarwal:** Got it. Second question was again on MDF, the subsidy on electricity. Is this a recurring thing? How does this really work for the plant?
- Keshav Bhajanka:** It is a recurring thing, but now we will get it in bill. What we have gotten till now has been the arrears since the plant started till now. So that is a onetime payment. But now this amount will

come to us in bill. So it will not come as an exceptional item. It is going to reflect in the form of a lower part able to book.

Rahul Agarwal: Get it. So annually, this number should be like -- does it really distort the EBITDA margin what you report or its because its?

Keshav Bhajanka: It's six years accumulated subsidy. So ideally, it is not going to be so meaningful. You can calculate 7.5 x 6, it's about crores a quarter over an year. So it is not going to be too meaningful. Yes, the quantum will increase a little bit, our production goes up. But it's not going to be disproportionate. It's not going to be like INR3 crores, INR4 crores a year something.

Rahul Agarwal: Got it. Then it should be fine. And just one small question to Arunji on other expenses. The quarter number looks like INR200 crores. But does it include any onetime expenses here?

Arun Julasaria: Basically, increase is on account of spending in advertisement. Now we are on movie theaters also. So we're spending there also. Apart from this, in this quarter, we settled a continual liability. In fact, there was a case going on investment of government for entry tech which import in PGS thinner. So our total liability on that account was INR14-point some crores. And after adding interest and penalty to that, it would have gone around INR30 crores, INR35 crores.

So West Bengal government came out with an active scheme whereby they offered a very lucrative scheme that forget the interest forget the penalty, just paid 50% of original demand and settled it. So we paid around INR7.5 crores on that account. So that is included in this expenditure. So mostly on account of this onetime effect, plus increased spending over the current revenue.

Rahul Agarwal: Got it, perfect. Thank you so much and wish you all a very happy Diwali.

Arun Julasaria: Thank you.

Moderator: Next question is from the line of Sneha Talreja from Nuvama. Please proceed.

Sneha Talreja: Congratulations on strong set of numbers. Couple of questions, sir. Firstly, what's changed between Q1 to Q2? The reason I'm asking is, Q1, you decided to downgrade the guidance for MDF division to around 20% and this quarter with stability coming back. And of course, that we have seen a strong quarter with respect to demand and volume, you again decided to upgrade the MDF guidance. So what has changed between Q2 and Q1?

Keshav Bhajanka: Sneha, we are a conservative company, as you are well aware. And we believe that we should give bad news at the earliest. However, at this time, we believe that we'll be able to definitely overachieve this 25% and provision in lighting. Nothing has changed very meaningfully, but to be honest, we were fairly confident that the ramp-up would take place Q1 in spite of slight weaker hence but otherwise the revenue. Now we realize that it was actually just a one-off, one quarter exercise. So we believe that for the second half of the year, 25% is realistically possible and hence, we're going ahead 2%.

- Sneha Talreja:** So second half, 25% growth in both the quarters is easily possible as what you are guiding for?
- Keshav Bhajanka:** I won't say easy, but yes, it's possible.
- Sneha Talreja:** Understood. Secondly, I wanted to understand, even in the Plywood division, you're seeing 10% sort of a volume growth. Was that expected? Or were we expecting to see -- because I was reading earlier note and we were anticipating most of the demand to come in post Diwali. And surprisingly, it's 10% growth now. So was this expected? Or has it come meaningfully only?
- Keshav Bhajanka:** We are targeting 10% revenue growth, it's not volume growth. I would request Nikita to clarify.
- Nikita Bansal:** So the thing is, if you see that Q1 was little muted, so that was unexpected for us. We have to recover that. Definitely, we didn't know how markets will behave. If we really see last quarter, we actually reduced the overall revenue growth expectations on plywood, and that is because of the muted Q1. But if you see the recovery is good and because of which and if you see is the all of fully I mean this is pre-COVID time. If you really go back to pre-COVID time, Q2 has always been a strong quarter. It's only during these COVID years is where things changed a little bit, and you had different quarters to lead in recovery better than even Q2. But historically, Q2 has always been a very strong quarter. And then Q4 is definitely one of our best quarters that we build the in this carrier. I hope I've answered your question.
- Sneha Talreja:** Understood. So lastly on your other expenses where you've seen ad spend have increased. How much was the ad spend this particular quarter as a percentage of sales versus last year same quarter and last quarter? And also was there any one-off in the Laminate division as well like with related to marketing expenses, which you've done additionally this quarter?
- Keshav Bhajanka:** I think we have invested in marketing scarily over quite some time now. I don't have the exact figures with me, but I'd request CFO to get back to you. And in laminates, there is no major one-off, but we have increased our ad spend in line with the launches that we have done.
- Sneha Talreja:** Right. Ad spend for the quarter, percentage terms?
- Keshav Bhajanka:** I'd request the CFO to get back to you on that with the detail offline.
- Sneha Talreja:** Sure, got it. Thank. Thanks Keshav. And all the very best.
- Keshav Bhajanka:** Thank you.
- Moderator:** Next question is from the line of Rahul Agarwal from InCred Capital. Please proceed.
- Rahul Agarwal:** Thanks so much for the follow-up. One question, Keshav, was on the container freight business. So where are we in terms of divestment? I understand the demerger approvals, the EBITDA number for the quarter also looks distorted at INR1 crores. Could you explain that as well as the direction in terms of how we should think about the divestment and getting the balance sheet delivered, please?

Keshav Bhajanka: I think there is a one-off arrear for rental that we have paid as request here for this has been that later. But as far as and as for the concern our objective will always be to maximize value for our shareholders. So at this point in time, considering the current performance of the division, we are not going to get account to flesh if we go for a divestment.

We are waiting to start with the port operations, which as you know, is going to add tremendous value both in terms of top line and bottom line to the segment. And then once we get a correct pricing for the division, a correct value for the division, then we will look at divestment. It is taking slightly longer than expected to get the capacity operation. And once that happens, I'm sure that we'll be looking at a lucrative payoff from the division.

I'd request the CFO to please explain the one-time revenue accrued payment, the rent accrued payment.

Management: In fact, in this quarter, we have paid INR3 crores around additional fees from Calcutta Port Authority, which relates to early years. The port have rewired the rent of the land they have given to us retrospectively, and we had to pay it.

Rahul Agarwal: Okay, I get it. Second question was on laminate realizations. I think there is some decline quarter-on-quarter basis. What could be a reason for that?

Keshav Bhajanka: The reason is that in our premium product segment, we have been unable to grow. And we have at the same time increased sales of the lower segment. So, we are trying to arrest this as early as H2 itself. With the new catalog launch and with the launch of Sainik Laminate, as you know, Sainik Laminate has a far higher price point, 0.8 mm, and low category, we should be able to post a higher realization in the current quarter and beyond.

Rahul Agarwal: Got it. So, it should basically recover back in second half, right?

Management: It will recover. Whether it recovers back to last year levels or not, it could take a little longer.

Rahul Agarwal: Got it. Should we worry about the same thing for plywood? Because even Sainik Plywood, I hear, obviously, everybody knows it's done very well. But I also hear Club Prime sales, there's a severe amount of down trading there. And that sales for Century, a few dealers also tell me that they're down like 15%, 20%. Any truth to that? Should we also worry about plywood margins? I know you've guided for second half. So, I take that guidance.

Keshav Bhajanka: I would request Nikita to take this over. I think the noise is around, the rest of the industry reducing in terms of realization. But I am very happy to mention that year-on-year and quarter-on-quarter, our realization is actually up. But I would just request Nikita to take this, please?.

Nikita Bansal: So, in the past, we've always said that the growth in Sainik will be far higher than the growth in the premium segment. Having said that, our endeavor always to grow. I don't think, I'm sure you might be hearing this from other companies or thing. But we are not, there is no de-growth. There is growth, but growth is definitely not as high as when you compare it to Sainik. So, at

the end, my job is to ensure that our average realization keeps increasing and our EBITDA is maintained. And I think that is what we've been delivering quarter-on-quarter. So, I don't think, I do not see that as a problem even in the future.

Keshav Bhajanka: In fact, if you look at it from FY '20-FY '21 onward, in plywood, our realization has steadily gone up year-after-year. Today, it stands at about 53,900 and it was 47,000 in 2020-'21.

Rahul Agarwal: Got it. Thank you so much and best of luck. Thank you.

Moderator: Thank you. Next question is from the line of Keshav Bijayratan Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: Sir, congratulations on decent performance. Just want to know whether you want to change anything on the guidance side of volume growth and EBITDA margin, especially on the laminate segment?

Keshav Bhajanka: In the second half of the year, the objective in the laminate segment will be to achieve double-digit-plus growth. And we are going to try to hit our guidance of 13% to 15%. So currently, that is the visibility that we have. For the rest of the division, I think we have already given our guidance both in terms of revenue and in terms of EBITDA, if you'd like me to recap the same, I can.

Keshav Lahoti: Okay. So Laminate first half margin is something like 10%. So if you plan to end the year by 13% to 15% margin as per your guidance?

Keshav Bhajanka: No. I plan to be 13% to 15% margin in H2.

Keshav Lahoti: Okay. You're talking about H2. So why haven't we seen the recovery in Laminate segment margin yet, it's still like 11%. So -- And how is the segment -- have you seen any increase in sale in Sainik Laminate sale?

Keshav Bhajanka: Your voice is a little unclear. Could you just repeat the last part again?

Keshav Lahoti: Just wanted to get a sense about the Sainik Laminate sales. So has meaningful things happening on that side? And why is your margin still bit subpar in this quarter also like 11%? We do understand Q1 was like a one-off quarter, but still margin has not picked up in Q2.

Keshav Bhajanka: So I think our launches -- because we've launched our new catalog, whereas we have launched many slots. Sainik Laminate, like we have mentioned, was launched very recently. So these take some time to stabilize. Due to that, our margin will be affected. Last quarter also, it was affected. And even during current quarter, our guidance is 13% to 15%. Now once we scale up, once the new catalog is fully accepted, once we see that spike in sales.

And once we look at better contribution from Sainik as well, because right now, Sainik Laminate has been launched only in the West and North predominantly and maybe one part of the South.

So we haven't rolled it out nationally. We are going conservative with it because we don't want it to impact our higher income Century Laminate.

So because of these two, I think as we scale up across the new 1 MM catalog and in Sainik, you will see margin recovery being better. Alongside the sales next year, once we have the benefit of our under-capacity exports should also scale up rapidly. So medium term, I'm very bullish that margins and turnover is going to grow up -- go up quickly. But yes, short term, there have been challenges. And next two quarters, we'll see recovery, but not in the pace at which we had thought it could.

Keshav Lahoti: Understood. Got it. I just want to understand one thing, your particle board capex, which has increased during the last two quarters. So how will the return ratios look in particle board? And what is your assessment of particle board industry size? And how much is the import in this industry...

Keshav Bhajanka: Your voice is very unclear. Could you please come closer to the microphone or something because there's a lot static. I can't hear you properly.

Keshav Lahoti: So I just want to understand, the particle board capex has increased for you not this but initially in the last two quarters. So how will the return ratios look in this segment? And what is the revenue potential of this segment? And in your assessment, what is the industry size? And how much is the import in this industry because it's a very capex-heavy business?

Keshav Bhajanka: Okay. So I think in particle board, we should be able to do 1:1 in terms of asset turnover ratio based on the current realizations that we have. In any of our new investments, our objective is always to deliver 20%-plus ROCE and the particle board plant is no different. In the new capacity as well, we will definitely attempt to deliver 20%-plus ROCE.

Keshav Lahoti: Okay. So what's the industry size and import in the industry?

Keshav Bhajanka: I think CFO can connect with you and give you those details offline. I don't have the data on me.

Keshav Lahoti: Okay. Got it. One last question from my side. What is the capacity utilization of Hoshiarpur plant in this quarter and the exit rate?

Keshav Bhajanka: See, we are at 25,000-plus in terms of -- 25,000 cubic meters in terms of total capacity. So I think, we would be close to 70% utilization as of the previous quarter. And going forward, our objective is to hit 80%-plus over the course of H2.

Moderator: Thank you. Next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Sir, if you could help me with the volume, value and margin guidance for FY '24 and '25? I think I missed it.

- Keshav Bhajanka:** '24, '25, we haven't given guidance yet. But our objective has been to maintain margin alongside 13% to 15% for Plywood and for Laminate and 20% for particle board, 25% for MDF. Our overall objective will always be to attempt to hit a 20% run rate of growth for the company.
- Nikhil Agrawal:** All right. So this is -- this was for FY '25, right?
- Keshav Bhajanka:** Yes.
- Nikhil Agrawal:** For FY '24?
- Keshav Bhajanka:** I have already given the guidance for '24. Would you like me to recap...
- Nikhil Agrawal:** Yes, yes, I mean that. Yes.
- Keshav Bhajanka:** Okay. So for H2, our guidance is that we will be doing -- the H1 numbers are already with you. H2, we will be looking at doing a 13% to 15% EBITDA in plywood with a double-digit growth. In Laminate, we will be looking at a double-digit growth and moving back towards the 13% to 15% EBITDA.
- In MDF, we'll be attempting to maintain 25%-plus EBITDA with 25% growth. And in particle board, results are likely to be similar to the previous quarter, where we have had 20%-plus in terms of EBITDA and the volumes have been around 18,000 for the quarter.
- Nikhil Agrawal:** All right. And sir, any -- is there any revision in the capex or like capex plans or anything? You had a laminate plant, which is supposed to come up in Q3 in Andhra at least. So is that on track? Or is there any other...
- Keshav Bhajanka:** As I've already mentioned, we are hopeful that Laminate will commence production within this quarter itself and the MDF capacity in Andhra will commence production from next quarter.
- Nikhil Agrawal:** All right. And sir, lastly on the BIS norms, which are kicking in, in the -- for MDF imports, for MDF as a whole. So do we see anything major on this front? Like will it have some major impact on imports? Or is it -- will it be negligible?
- Keshav Bhajanka:** I think in any form of professionalization of the industry, whether in terms of BIS or earlier, whether GST was being introduced, there's always going to be beneficial for players such as our self. So while the proof of the pudding is in the eating, I'm hopeful, yes, definitely, it will help domestic manufacturers.
- Moderator:** Thank you. Next question is from the line of Bhavin Rupani from Investec. Please go ahead.
- Bhavin Rupani:** My first question is related to laminate. Sir, how should one understand the pricing and margins of Sainik Laminates versus our existing blended pricing and margins?
- Keshav Bhajanka:** The pricing of Sainik Laminate is higher than our existing blended pricing. And the margin for Sainik Laminate, you see any new product when it is introduced, takes time to scale up. Once

Sainik Laminate scales up, I think the EBITDA margin should be along the lines of slightly better than our overall EBITDA margins.

Bhavin Rupani: Okay. And sir, how do you intend to grow this? I mean what percentage of sales it could be one year or two years down the line?

Keshav Bhajanka: You see, our objective will always be to grow both Century Laminates and Sainik Laminates at double digits. Having said that, I think that for Sainik Laminate, it is reason to understand that we would be at least 40% in terms of the volume of Century Laminates over the course of the next two year to three years.

Bhavin Rupani: So did I hear it correct? You said 40% in next two years to three years?

Keshav Bhajanka: 40% of the sales volume of Century Laminates, 1 mm.

Bhavin Rupani: Got it. Also, sir, if you could specify a similar thing for the laminates designed by Manish Malhotra? What will be the pricing and margins over there?

Keshav Bhajanka: Manish Malhotra, the objective is to alleviate the brand. The pricing is substantially higher. But as you know, we do not normally give out any volume guidelines for product category.

Bhavin Rupani: Okay. And sir, next question is related to MDF. Your MDF margins per CBM has declined 6% after adjusting for the one-offs, 6% year-on-year is what I'm telling. However, when we look at the margins of competitors, it has declined quite sharply. Could it be due to better pricing in North India and possible raw material cost differential in North versus South India?

Keshav Bhajanka: Unfortunately, I don't comment on competitive activity. But like I said, our objective will be to maintain 25% of EBITDA margins at the 25% rate.

Bhavin Rupani: Okay. So is it possible for you to specify what is the pricing differential in North India and South India, both the realization and the raw material cost pricing?

Keshav Bhajanka: Raw material cost pricing in South India would be anywhere between INR4 to INR4.5 per kg, whereas in North India it is INR6.5 flat, and the realization in South India would also be lower than North India, but I don't have exact numbers on me right now. I would request the CFO to share the numbers or provide it off-line. As CFO indicated, we'll provide to you off-line.

Bhavin Rupani: All right. And sir, last question is the existing capex that we are doing. Do we have any state incentives or central incentives on any of our projects?

Keshav Bhajanka: Yes, we do.

Bhavin Rupani: Can you quantify it, sir?

- Keshav Bhajanka:** State incentive is for the Andhra Pradesh project where we have electricity subsidiary, where we have a transportation subsidiary, although the common trade and where we have received blended potential cost.
- Bhavin Rupani:** Is it possible to quantify, sir?
- Keshav Bhajanka:** I think CFO can again share those details with you. I don't have it with me -- offline.
- Moderator:** Thank you. Next question is from the line of Amit Purohit from Elara Capital. Please go ahead.
- Amit Purohit:** I wanted to understand about your carpentry loyalty program. How many additions of carpenters you would have done, and how does it work? I mean, last FY '23, what would be the addition in first half, if you could tell me what is the base and some excitement?
- Keshav Bhajanka:** Because of the competitive reasons, we don't share this data unfortunately. It is a trade secret and it is a big asset that we have. So we don't share any data on this program. But what I can tell you is it is growing from strength to strength.
- Amit Purohit:** 10%. Okay. And would we be able to share at least...
- Keshav Bhajanka:** Nono. Strength to strength. I cannot share percentages, unfortunately. It is growing from strength to strength.
- Amit Purohit:** Sorry. So just wanted to know what would be the spend on loyalty, say, probably last year? And what would be in first half? Is that possible to share?
- Keshav Bhajanka:** Again, we don't share any data on this and you understand why. But having said that, despite this, our margin profile continues to remain robust, and the guidance remains unchanged.
- Amit Purohit:** Okay. And second question on just laminates. So I mean, if I look at last five years, our capacity expansion in laminates has been lower than when I compare it with any other segments that we have, and now we endeavor to get into this launching the Sainik Laminates, and also drive the premium segment as well. So any capacity plants would be there? Or would you look to stabilize first on the margin side and then plan it after that.
- Keshav Bhajanka:** We have already announced a substantial capex in the form of the new unit in Andhra Pradesh. So the first is to execute that and utilize that capacity. And post that, we will plan for the capex. But for the time being, our focus is only on the Andhra capacity as far as the laminate division is concerned.
- Amit Purohit:** Okay. And this -- I mean, from a switch, is there -- I mean, I'm sorry, new to this, but I just wanted to understand when you look at laminate as a category, I understand there's a lot of winners, which is significant in terms of volumes. So when you launch a Sainik brand, there would be a shift in product mix, right, still for you? That's why you're saying that Sainik will be premium than our average right now for you?

- Keshav Bhajanka:** See, export realization for us is lower because we are right now not in the larger side. Once we get into the larger sizes, then export realization will also start to go up. And at the same time we do have a component of 0.8 mm. So because of that one-on-one realizations will always be higher than our other realization. Since we are only in the one-hand category in Sainik, I am writing that when Sainik volumes start coming up, it will push on realization or not being lower.
- Moderator:** Next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.
- Nikhil Agrawal:** Sir, is it possible for you to quantify the impact of the BIS norms that are coming in?
- Keshav Bhajanka:** Your guess is as good as mine, but all I can say is that it will be beneficial because again, once it became quite shy, when GST is there, we're all very confident and we thought it could change the very industry functions, etcetera. And while it did help, the impact was nowhere close to what we had expected. So I think it is better to go in with muted expectations and see a better result.
- Nikhil Agrawal:** All right. And sir, like I was tracking from the data that we get for imports. Sir, your Q2 imports had -- is the date, if I'm not wrong, it has fallen down by 1% quarter-on-quarter. But for India as a whole, exports have increased by 7%. So was there any one -- any issue in the exports? Or were you focusing on the domestic markets more?
- Keshav Bhajanka:** Sorry. Could you repeat that one?
- Nikhil Agrawal:** Like your exports in quarter 2, they had fallen down by about 1% in quarter -- 1% quarter-on-quarter, according to the data, that you cast. But India exports were up by about 7%. So was there any issue in the exports? Or was it just a quarter where you were focusing more on the domestic market?
- Keshav Bhajanka:** To the best of my knowledge, there's been no reduction. So I think I don't know what data you have, but no, we have not seen any reduction in exports.
- Nikhil Agrawal:** All right. Like India, though India's exports grew by about 7% quarter-on-quarter. So what was your quarter-on-quarter figure?
- Keshav Bhajanka:** We don't share domestic versus export data.
- Moderator:** We have our next follow-up question from the line of Keshav Bijayratan Lahoti from HDFC Securities. Please go ahead.
- Keshav Lahoti:** For the ply side, capex seems to be a bit slow, whether the Hoshiarpur ply commissioning might get pushed to Q2 instead of Q1?
- Nikita Bansal:** Yes. So actually we are taking that plant a little bit slow because in Q1 we had a little bit of a muted growth that -- we were taking the plant a little bit slow. So currently, I see maybe shifts to Q2, but we are on track, we're procuring machines, etcetera, as we think. Yes, this plant is

much easier and faster with a machine. So as of now, I will stick to Q1, but if anything changes, I will update in the next quarter.

Keshav Lahoti: Understood. Sir, one thing we always saying that, segment supply is going to increase which will possibly...

Keshav Lahoti: So 1 thing we always say timber supply is going to increase in upcoming quarters, so which will lead to stable timber prices or possibly the timber price might cool off. Any sense what sort of increase in timber supply will happen, like what sort of plantation are happening to better sense?

Keshav Bhajanka: [inaudible] I mean there is a forex service that you may have gone -- you can go through, which is -- we need some light on it. But the reason that we've seen that supply will increase as it is included a little bit. If the prices of timber is going up, we invented to the farmer or going to agroforestry increases. Today, when the prices were INR2.5 can we incentive to the farmer for agroforest? It is highly muted. So even though this is far easier crop to grow than a rice or a wheat or some other cash crop, still, the farmer was de-incentivized to move towards agroforestry.

Today when the prices in the north is sort up to INR6.5, we are talking about 160% increase in the price. And because of the same, there is huge incentive and the quantum plantation that has taken place, when I go to the plant in Andhra Pradesh, and I go to the plant in Hoshiarpur, the quantum of new planation taking place is truly hard. Thankfully say that the supply of timber is likely to go up. And this is the same trend that we observed in China, in other developed countries, as well. So this is what gives us confidence that agroforestry is here to stay and will only grow with time to come.

Keshav Lahoti: Understood. Sir, will it be -- I know it's very difficult, but to give me some sense of ballpark number of broader range, what sort of plantation increase comparatively?

Keshav Bhajanka: In the agrible land of India, if 5% of that is converted to agroforestry, then the supply of timber will double. So that is the sort of math. I mean the total agrible land of India, 5% of the total area that is currently being used by cash crops as per the ministry is that is converted to agroforestry. We can then double the quantum of agroforestry in India. I hope that gives you a sense of the potential height.

Moderator: Next question is from the line of Shubham Aggarwal from Axis Capital. Please go ahead.

Shubham Aggarwal: So just one question here. On the plywood segment, we saw the gross margins expand Q-o-Q. We have good growth as well in the segment. However, the EBITDA margins of the segment contracted, so about 100 bps Q-o-Q expansion in gross margin and 15 bps Q-o-Q contraction in the EBITDA margin. I just wanted to get a sense like what relates to this contraction in EBITDA despite of so much expansion.

Nikita Bansal: Can you repeat it actually? Because your voice is very mumbled.

- Shubham Aggarwal:** Okay, hold on. Hold on. I'll repeat the thing. I think this should be better.
- Nikita Bansal:** Yes, go ahead.
- Shubham Aggarwal:** So I was just saying the gross margin for the plywood segment has expanded Q-o-Q by about 100 bps. However, the EBITDA margin for the plywood segment has contracted Q-o-Q by about 15 bps. Just wanted to get a sense, and this similar trend is also being seen in a year-on-year scenario. Just wanted to get a sense, I mean, what has led to this disparity? The gross margin has increased, the growth is good, I mean, the revenue growth is good, still EBITDA margins have come down.
- Keshav Bhajanka:** Basically, as we have guided earlier, we are very, very bullish on the medium to long term. We have already seen that peers in the industry, which come earlier, for instance, pipe and other products that go in the earlier state and the building is being constructed or house is being constructed, they have been doing very well. Our new launches have shown a significant uptick.
- Going forward we are very bullish that the cycle for our products is going to be fairly robust. So we have continued to advertise, and we continue to invest in marketing. And I think that this slightly higher than expected marketing income or the slightly elevated market income, perhaps justifies to a large extent, the delta that you're referring to.
- Shubham Aggarwal:** Okay. So Keshav, would you be able to give a sense that this is majorly -- like what are you focusing on? TV advertising or is it generally in the form of discounts or retail activities at the ground?
- Keshav Bhajanka:** Cinema and TV are the 2 predominant medium. And alongside that, we have also ran up our digital spend. Nikita, would you like to -- I think that in the context, Nikita will give.
- Nikita Bansal:** We never give out -- we don't give out exact value of how much it owns, but this is the first year that we are spending substantial amounts in digital for the brand awareness and campaign awareness. This is not done in the past. We've always been digitalizing and revamping. So this year there has been an increase in overall online spend in Cinema, which we didn't do in the previous years.
- Shubham Aggarwal:** Okay. So all I was actually indirectly asking was, this is not because of higher R&Rs for our dealers and distributors to book material from us. That's what I was trying to assess.
- Nikita Bansal:** No.
- Moderator:** Next question is from the line of Bhavin Rupani from Investec.
- Bhavin Rupani:** Just one more clarification. First is on plywood. Have you taken any price hikes during Q1 and Q2? And are there any plans to increase in Q3?
- Nikita Bansal:** So we took 1 price rise in July post that -- raw material pricing is really increased that we were posted data price in Q1, since that the market scenario was such that we will be able to absorb

any more price increases currently. And given that the raw material prices are coming down, I don't think currently we are willing for a price rise in the near future.

Bhavin Rupani: Is it possible to quantify the price hike in July?

Nikita Bansal: I think it was 2% if I'm not wrong, in July. Different products and different things which would be 3% and 3% in something. So average it is roughly 2%, 2.5%.

Bhavin Rupani: All right. And just one more clarification, the guidance that you just provided, it was for second half, right, sir?

Keshav Bhajanka: Yes. The guidance that I provided was for the second half.

Moderator: We will take the last question for the afternoon from the line of Ritesh Shah, an Individual Investor.

Ritesh Shah: This is Ritesh, I'm calling from Investec Capital, not individual investor. I had a couple of questions on laminates. You have indicated a new range of targeting specific new market segments. This is the text which is there on the slide. Keshav, can you please elaborate this a little more? Are we looking at a particular sizes which were absent in the product topic or is it the new design? So that's the first question.

Keshav Bhajanka: So the first thing that I need to clarify, we were presenting the premium segment, essentially laminates. What we need to say is that there is a further value-added segment, which is higher-priced definitely laminates. And to this end, we are tied up with Mr. Manish Malhotra and we have launched a range.

At the same time, in the economy range of the 100 category we were absent. So that is where we are targeting through Sainik Laminate. Alongside the above, with the launch of the larger sizes that opens us for the opportunity of exporting to geographies in Europe and other geographies as we are not present yet due to a lack of the larger sizes. So this is what I mean by new ranges.

Ritesh Shah: Perfect. And what were the sizes which were launched which we now have?

Keshav Bhajanka: The sizes that we are going to launch with the new cases being commissioned this quarter, will be 14x6 and 10x4.

Ritesh Shah: Okay. This is helpful. And second related question to laminate is how are we looking at the distribution specifically for the premium laminate what you just mentioned. Will the distribution be different? How should we look at that?

Keshav Bhajanka: The distribution is going to ride on the same network that we have created over years and the advantage that we have is present in over 20,000 retail points across India. So we are piggybacking on the same or even the payment range.

- Ritesh Shah:** Sure. That's helpful. And lastly, on MDF, what would your thoughts be on competitive intensity in the marketplace. Demand is good, but there is incremental local supply. And imports at times also create a havoc. We have seen larger listed players actually pushing material to the export market just to ensure that the utilization levels are fine and they maintain a fine balance. So it's a bit precarious. Would you be worried about this? How would you look at this particular scenario?
- Keshav Bhajanka:** Again, I do not normally comment on competition. So what I can say is that our ability to scale up and ability to utilize our capacity has been better than the industry in general. And the guidance that I have given on the call, we are fairly confident of achieving the same.
- Moderator:** That was the last question in the queue. As there are no further questions, I would now like to hand the conference over to Mr. Keshav Bhajanka for the closing comments.
- Keshav Bhajanka:** Thank you, everyone, for attending our call. I wish you all a very happy Diwali.
- Moderator:** Thank you very much. On behalf of SKP Securities Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.