



“Century Plyboards Q1FY16 Results Conference Call
Hosted by Ambit Capital”

July 23, 2015



MANAGEMENT: MR. SAJJAN BHAJANKA – CHAIRMAN, CENTURY
PLYBOARDS LIMITED
MR. ARUN JULASARIA – CFO, CENTURY PLYBOARDS
LIMITED
ANALYST: MR. ACHINT BHAGAT – AMBIT CAPITAL



Century Plyboards Limited
July 23, 2015

Moderator: Ladies and gentlemen, good day and welcome to Century Plyboard's Q1FY16 Results Conference Call hosted by Ambit Capital. 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. Achint Bhagat from Ambit Capital. Thank you, and over to you sir.

Achint Bhagat: Good afternoon everyone. Welcome to the Q1FY16 Earnings Conference Call of Century Plyboard. We have with us here today Mr. Sajjan Bhajanka – the Chairman of the company and Mr. Arun Julasaria – the CFO of the company. I request the management to briefly take us through the key highlights of the quarter and then we can open up the floor for questions. Thank you.

Sajjan Bhajanka: Good afternoon. This is Sajjan Bhajanka – Chairman of the company and I am accompanied by Mr. Arun Julasaria – CFO. So Arun is with me. So friends before I handover to Arun, just I will give you a brief details about the present happenings.

This year the growth in plywood was almost flat. So this is basically due to the better margins this year because of reduction in the raw material prices. So there was a case for little bit reduction in the prices. But we have never done that price reduction in the past and once we reduce the price then it has cascading effect because dealers they have stock and then giving credit note on these things or they lose money. So taking everything in view, we stick to our price line and we maintained our prices. So thereby the margins were good but I think there were some price cutting from the competition and might be little bit impact and overall the market was also sluggish. So the normal usual growth in the market was not there.

As you all know because particularly in the housing sectors the growth was almost nil or negative growth was there. So that has some effect and another thing like in our plywood segment there is another component which is veneers. So last year we had plenty of stock of Myanmar timber which we imported in earlier years and we were filling that we were selling the veneers. So this year that timber was not available because we adjusted that timber in the last financial year. So this year we have compensated that by increasing our capacity in Myanmar and Laos. But Laos both units are commissioned. But the first material arrived in India in the month of July only. So the impact of Laos material, the veneers from Laos going to the market would be felt now. From Myanmar we are getting the material. But again Myanmar was also little bit disturbed because of the Chinese New Year and water festival in Myanmar. So this April and May the performance of Myanmar unit was also not up to the full scale. So there was little bit impact due to the veneers and again we hold to our price line, due to that at one place we had better margin but maybe there was little bit reduction in the sales. So now we



Century Plyboards Limited
July 23, 2015

have fully geared up and in July already things are better and the demand is partially revived and is picking up and we are confident that now onward, partly in the quarter 2 and thereafter we shall make up the past deficiency and may be things would be better and we shall end up the year if not 25% growth then even not less than 15% growth.

So somewhere that would be there because the contribution of Laos would play a role; the enhancement in capacity of Myanmar will play a role and then like this sluggishness in the housing sector would not continue for very long because government of India is also taking lot of measures to boost the housing demand. So all this together may be positive. So that is the basic outlook for the time being. There may be one thing, like there is improvement in the demand of the MDF in the country. So we have seen from the MDF players if they could sell better they have increased the price that was absorbed by the market and the margins are good and because of plenty of supply of raw material, there is basically left over of timber, plantation timber. So due to that the plantation timber price has come down in the country. So with that and with the reduction of the glue cost things are like, raw material cost of MDF has come down and power cost has also come down in the country.

So with all these factors, now it looks to be viable and we had license for MDF in Uttarakhand, in Punjab, in Andhra but so far we are holding on and we are not going ahead. Now, they before yesterday our Board has cleared setting up of the MDF plant. So that we shall be doing and our engine and everything is ready because 3 years back we did elaborate exercise for putting up an MDF plant. So that time we did entire engineering, entire negotiations. So basic groundwork is there and once we give the full clearance then I think within 15-17 months we shall commission the plant. So that is our proposal and now I hand over to Arun Julasariya to share some figures with you.

Arun Julasaria:

Good afternoon friends and I welcome you once again. It is good to speak to you once again about the Q1 Financial Results for FY16. First, I will be speaking about overall numbers our topline have grown from 352.7 crores to 370.9 crores. So it is almost flat with near about 2% growth. The EBITDA has grown from 47.17 crores to 66.76 crores, there is a whopping increase of near about 41.5% and EBITDA percentage for the quarter one are 18% against 13% in corresponding quarter of last year and you will find that last whole year we booked EBITDA of near about 17%, we have been maintaining to say that 17-18% is our sustainable EBITDA margin and last year in Q1 the raw material prices were not that low in fact the crude prices were also were high. So the competitive advantage started to come to us from Q2-Q3, basically from Q3 onwards and maximum on Q4.

So on an average we could book 17% EBITDA margin and this year we expect to maintain at least 17% for the whole year and likely to be better at 18% we have already booked and our profit before tax have grown up from 30.7 crores to 44.75 crores here again there is whopping increase of near about 45% and profit after tax is up by 13.97 crores from 25.72 crores 39.69



Century Plyboards Limited
July 23, 2015

crores which is near about 54% increase. So these are the overall figures. Now I will be talking about segmental figures.

On plywood segment, we met a little bit degrowth, in fact we had 275 crores turnover last year and this year it is 258 crores. So there is little bit dip of 6% for the reasons Mr. Bhajanka right now mentioned you in fact we found that whole of the channel is full, distribution channel is full and if we go and push the material into the channel at this moment then the channel partners will bargain with us for hefty discounts and if we fall into that vicious circle then we will keep on giving discount every month. So we adopted route of not falling in that vicious circle. We are firm on our pricing and we know that Century is the best brand, so customer will always prefer these. So we are waiting for channel to vacate and the once the channel vacates, the turnover will bounce back to normal and we will be booking handsome growth and we are confident by year-end we will be working at least 15% growth and if things keep on improving as they are now we may have to revise our 15% growth target to upward. But in Laminate segment we had handsome growth of near about 23% in value terms and in volume terms 25% and I think all the basic numbers are seen by you, so I will not spend much time on talking about the numbers. So I will open the house for discussions. So questions please.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sameer Tulsian from JM Financial. Please go ahead.

Sameer Tulsian: Just wanted to understand like what gives us confidence going ahead of like 15-20% volume growth in the plywood business because what we see the conditions with respect to first quarter, second quarter remains same in terms of demand. So what is the change we are seeing on ground as of now which gives us confidence in terms of demand?

Arun Julasaria: Sameer, you will find that our government is focusing now more on affordable housing and we are going to encash this opportunity. There is going to be demand for economy segment plywood now. So we already launched our Sainik TVC on air. You can see our Sainik TVC on major channels now. We are focusing more on this product with the growth of affordable housing in India, the demand for economic segment plywood will go up like anything, and GST is also almost ~~xxxx~~ at its final stages. So it is only a matter of time, it may be months or whatever. So considering this all and our aggressiveness on this economy segment product we can very well say we are very well confident that we will give the growth of 15% plus.

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Sameer Tulsian: How has Sainik segment done for the quarter?

Sajjan Bhajanka: In Sainik, we had a growth in fact. In Sainik segment we had a growth of near about 12%.

Sameer Tulsian: OK, YoY?



Century Plyboards Limited
July 23, 2015

Sajjan Bhajanka: We had a growth of around 12% in December?

Sameer Tulsian: 12% YoY growth, correct?

Sajjan Bhajanka: Yes.

Sameer Tulsian: And how do we see your face veneer sales to pan out like with new Laos unit coming up, additional expansion Myanmar plus I think we also are going for a new subsidiary in Indonesia also?

Arun Julasaria: Yes, Laos our second unit has also commissioned and last week only we received the first consignment and then we have also received the second consignment. So already 25 containers have reached our Calcutta factory from Laos. So now with every passing day the quantity will increase and that will compensate for the loss of veneers which earlier we were producing in India and selling it and it is at much cheaper price in comparison to our Indian cost. So that is one thing and second Myanmar again we have already commissioned four units. So last like mid-April-May, the productivity is less because we adjusted old timber and new timber started arriving little late this year because there was migration from the old policy to new policy, so far their prices were all for the exports and this year for the first time after banning the export, MT, that is Myanmar Timber Enterprise have come up with a new directions for their domestic consumption. So that delayed the release of timber. So that again, hampered our productivity in this quarter in Myanmar.

So, this was like on the veneer front we were little lacking, so that will make up and overall the availability of veneer was very poor in India, so anybody who would have been positioned to supply it could have sold anything, any quantity in India. So that is there and now we are fully geared up. Myanmar also they have resumed full supply and Laos already material around 25 containers we have received around another 43 containers are in transit and every day they are producing and now it will be a regular phenomenon.

Sajjan Bhajanka: Apart from these in Myanmar in April months they had a festival called water festival, when for near about 3 weeks units do not work. Workers remained on complete holiday. So that one also affected.

Sameer Tulsian: So in terms of face veneer like we expect the face veneer sales to be better in the whole year FY16?

Arun Julasaria: Yes, for the rest of the year it would be much better and again we identified some other timbers to replace this keruing timber which used to come from Myanmar. But now we are importing timber from some other countries like Solomon and Papua New Guinea. So partly

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Century Plyboards Limited
July 23, 2015

that timber is also supplementing the demand and there is new market being created for some other varieties of timber.

Sameer Tulsian: And what about our new subsidiary in Indonesia, like how do we plan to ramp up there?

Arun Julasaria: That is again in the same direction to secure our raw material requirement in the country because Indonesia has banned the export of timber much prior to Myanmar. But as Myanmar was available, so we have never concentrated on Indonesia, whereas Indonesia has the largest reserve of the tropical hardwood and the timber particularly our type of timber that is keruing and gurjan. So the highest reserve is there in Indonesia and so far we just ignored it because in Indonesia there is some restriction on export of veneer also. So on timber there is restriction, total restriction. Timber cannot be exported but on veneers there is some export duty. So our next system would be to produce the final product in Indonesia but in between we will start commercial veneer and gradually will flip to plywood.

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Sameer Tulsian: And what would be the capacity there in terms of like peeling capacity?

Arun Julasaria: This is our first venture would be again limited to again may be 4-5 lines of peeling which may be equal to Myanmar.

Sameer Tulsian: Okay and your laminate segment seem to be doing very well. So what is driving the growth there which is not there in plywood like why is there such divergence in growth in laminate versus plywood?

Arun Julasaria: Because Century plywood is like serving to the niche segment, that is regarded the premier grade plywood and the value customers and upper segments they are our major buyers. So in that category there is a little degrowth and there is second category which is the masses or the low value product and there is a growth. So basically the upper segment they use it for the decorative purpose the veneers only. So the laminate is very limited like their planning, their interior decoration, whereas in the middle segment laminate plays a major role. So because the target audience for plywood, our type of plywood, the premium plywood and target audience for the laminate are totally different, segments are different. So that segment is there and because in our case earlier, we had only two lines of laminate. So we were fully selling those lines, we were running even on Sundays and last year only like in March or something in 2014 we completed our 3rd and 4th line and it took some time to fully commission all the four lines. So gradually now we have reached the full capacity. Earlier the problem was availability of the material; now with the material availability we are able to sell the entire produce.

Sameer Tulsian: Got it and how do you see your CAPEX in plywood laminate and MDF and especially in MDF like how do we see CAPEX panning out in all these three segments versus outsourcing like



Century Plyboards Limited
July 23, 2015

how do you propose to expand in terms of volumes, like it is through CAPEX in these three segments or outsourcing?

Sajjan Bhajanka:

Basically we are surplus of cash in the company, now like our ~~Fin-CC~~ account say around 150 crores are unused. We have hardly used any cash credit in our cash credit account. So we have money with us and partly like all the projects which are funded we avail some term loan from the FII and then partly it is funded by the equity. So in our case, equity would be from our internal accrual and surplus in the company because last year virtually we have not expanded much and the Laos unit and this thing, so pattern is like that and there we have a partner also in Laos. So with that investment-wise not much and again, like for MDF we have our internal resources and it will take some time.

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~~So during this period again we sell xxx-generation.~~

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Moderator:

Thank you. The next question is from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

Nehal Shah:

Sir, one on the MDF side. What are the plans going forward with respect to MDF, what kind of machinery are we planning, are we getting into European machinery or Chinese one and what kind of CAPEX are we looking at?

Arun Julasaria:

We are in the process of finalising it, so we have all the options. We are in dialogue with Siempelkamp and Dieffenbacher, these two European suppliers and at the same time Yellen is the largest Chinese producer. So last 2-3 years China has hardly bought any plants from Europe. Most of the plants were supplied by Yellen, almost they supplied 30 lines to Chinese this thing and they have done lot of improvement also and they are much cheaper than European lines. So we are just weighing the option because Euro has come down. So again Europe is also becoming a little competitive but China is still much cheaper and we have visited there some lines and again one team is going from us to visit the factory where their plants are installed. So after visiting Europe, we have visited. In last two years we have done our full research work. So we will take our final decision but we will try to keep the cost at the lowest possible without compromising with the quality of product.

Nehal Shah:

And sir what kind of cost differential would it be between a Chinese and a European plant at this point?

Arun Julasaria:

European should be minimum 50% costlier.

Nehal Shah:

Okay and what are the advantages between the two?



Century Plyboards Limited
July 23, 2015

- Sajjan Bhajanka:** At the moment whatever is available with us; there is hardly any advantages with European plants.
- Nehal Shah:** So it is worth to invest more in a Chinese plant?
- Sajjan Bhajanka:** Because in China they have purchased a lot of European plants. The initial few 100 MDF plants in China were all maximum imported from Europe and last two years there is hardly any plant imported in China. So these Chinese manufacturers now they have taken the full market.
- Nehal Shah:** So roughly sir what kind of CAPEX and the capacity, like would it be a normal 90,000 cubic meter plant or a bigger-sized plant?
- Arun Julasaria:** We need around 12 MW of power. So if we go for the captive power plant, then our energy cost will come down because the flue gas from the power plant would be used in the MDF plant. So thereby our energy cost will come down. So if we go along with power plant then it will be within 300 crores.
- Nehal Shah:** Along with power plant would be 300 crores.
- Arun Julasaria:** Yes.
- Nehal Shah:** And how is the energy supply situation in Punjab?
- Sajjan Bhajanka:** The energy supply is there now because for us we have to take a dedicated connection with say 132 KV line. So there the supply would be alright but it will be costlier and another thing is that we will have to generate like flue gas for drying the chips separately that will need additional fuel. So if it is a combination of China, all the plants are a combination of power plant and then the flue gas of power plant is used in the MDF. So that module works out. Then there is a cost of the production will be less.
- Nehal Shah:** And sir last question, what kind of growth did we have in the premium ply versus the commercial category?
- Sajjan Bhajanka:** Basically, in the past, we have never reduced prices and this year also we know, this is a temporary phenomenon and if we could have sold another 30-40 crores worth of plywood by reducing our cost that we did not do and now we are seeing the benefit because we are already established at a little higher segment, so now our margin over competition has further increased. Earlier we were selling 4-5% higher than competition now we selling 8-9% higher than the competition. So that is going to stay and like because there was less demand in the market. So if you would have given additional discount or reduced the price we could have definitely sold may be another 30-40 crores but we refrain from that and we are confident that

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Century Plyboards Limited
July 23, 2015

within short time we sell, we cover all, earlier loss and even we will improve and we should end up with minimum 15% growth.

Moderator: Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: Sorry to touch up on this again, on MDF from what we understand there is already some players who are putting up plants. So how is the demand supply sort of playing out in the segment and because this is a high CAPEX segment we need to have higher utilisation to make money in this. So how do you see the demand supply situation sir and if tomorrow if the glue prices go up again would these plants become uncompetitive again?

Sajjan Bhajanka: Glue is playing a limited role because it is hardly 10-12% of the cost. So the glue price will not matter that much and there is no likelihood of glue price going up because it's international petroleum product. So the international petroleum scenario is little bleak. So we are not like foreseeing any major increase in the glue price and the timber has come down, so it is surprisingly because in way between there was acute scarcity of timber in India and like three years back we decided to put up a MDF plant in Nellore in South India and when we started planning that time timber price was Rs2 a kg and within one year when we finalised our engineering and survey and everything timber price shot up from Rs. 2 to Rs. 6 and we had no option than to drop it because it could have anything because that time paper mills they started buying this thing and the raw materials of paper mills and for MDF is more or less the same.

So under that thing we had to drop it but lately there is a big increase in the availability of timber in North India. So the plantation growth is huge in North India and the demand of plantation timber is not growing that much. So prices of plantation timber have come down, like eucalyptus and poplar which once was selling above Rs. 1000 a quintal it has now come down to Rs. 600-650 and our raw materials is the leftovers of the saw mills or the veneer mills. So that is now the prevailing price is around Rs. 3 and in between the price was Rs. 5. So in North India the prices have come down from Rs. 5 to Rs. 3 and again dollar has increased. So the cost of imported MDF has increased and again North is in land lock and market is now growing in North India. So maybe it is major players of MDF were in North India like all the existing players, like most of them were in North India so that did little market education, they have did some promotional activities. So now there is market for MDF in North India itself.

Earlier they had to sell a big part of that in South and other parts of India and they were competing with the imports. So that time the viability was compromised. But now most of their product they are able to sell in North India only and what I feel demand is growing because I am watching this thing from the year 88 when two plants started in India the Nuchem and Mangalam with only 200 cubic meter capacity and they could not sell that product 200 cubic meter for next 20 years. So marketwise not ready for MDF and then 3 years



Century Plyboards Limited
July 23, 2015

back around 1500 cubic meter capacity was added and except the Bajaj Hindustan due to technological mishap they could not sell right but rest all are surviving and doing well and almost 1000 cubic meter plus was absorbed and it is absorbed in North India. So that is a good sign and because North India is land locked, so timber imported product has to come either at the Kandla port or the Calcutta port. So the logistic cost is very high. So that is the background, so seeing with demand, seeing increase in price, seeing decrease in raw materials, so now it makes and this all the changes are during the last 6-7 months or say 9 months. So that has encouraged us to take decisions and because we are in panel product so far we are refraining from MDF and partly were replacing from the imports, we are importing MDF, we are importing particle board, pre-laminated board but this is also one of the major panel and you cannot avoid it for long time.

Avinash Agarwal: Just to understand is this demand coming only from commercial segment or have residential segment also started using MDF now?

Sajjan Bhajanka: Now I think this is more than like the furniture makers, earlier only the organized furniture makes they were the major customers of the MDF. Now it is being sold to the retail channels. Now they have started believing in MDF and it is being used for so many things, for photo frames, for other things, for even the handicrafts, for making the file cover and so many things. So that way it has grown all over the world. India was the exception. Europe MDF when it came within few years. But in India because still the small furniture makers they go for tailored made furniture. They use like the carpenters are doing it, unit to unit. There is no mass furniture made or organised furniture. So that way it was surprising that the acceptability of MDF was so late in India but again that segment persists and still they are not ready to use MDF. So there is a section which is still averse to MDF because in climate there is some minus point also with MDF because in fact if the weather is very high it expands with the increase in the humidity in the atmosphere, it contracts with decrease of the humidity. So these all things make the user a little bit susceptible to give up and like panels come out in kitchen have this thing. So there some problem but again for the partition, for the selling, for other purposes now it has got some acceptability.

Avinash Agarwal: Just on the veneer issue that you are saying we had in Q1, just to understand what is the value that we have told this quarter versus what we had sold last year in the first quarter?

Sajjan Bhajanka: You are talking about commercial face veneer?

Avinash Agarwal: Yes sir, face veneer.

Sajjan Bhajanka: Volume or value I have to tell you?

Avinash Agarwal: Value-wise sir?



Century Plyboards Limited
July 23, 2015

- Arun Julasaria:** It is almost same, it is 35.43, Here it is 35.95.
- Avinash Agarwal:** Okay.
- Arun Julasaria:** So a 1.4% decrease.
- Sajjan Bhajana:** But the growth which was to be there was not there, which would be there in the second quarter onwards because we have replaced that one. Earlier Myanmar timber, we imported some timber from Laos also. So that and this thing, so there was no growth in veneer section. That is there and now this contribution from Laos and increased diversity from Myanmar there would be growth and these veneers which I am talking is considered decorative also are only commercial.
- Avinash Agarwal:** And sir year-on-year there would have been a price increase that we would have taken on an average in the plywood segment?
- Arun Julasaria:** In fact you will find that the average price realization has gone up by almost 2 percentage year-on-year. We have not taken any price increase it might be due to the product change or something like that.
- Sajjan Bhajanka:** This price increase is there which we took earlier but we have not reduced the price. This year we have not increased any price even in the quarter four also we have not increased any price last year. Also, we have not reduced the price.
- Avinash Agarwal:** So this degrowth in the plywood segment has largely come from the mid and premium end of the plywood segment from volume degrowth, essentially that is the one.
- Sajjan Bhajanka:** Yes at the cost of volume degrowth we have retained the better probability,
- Moderator:** Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.
- Aman Batra:** The first question is on the Sainik brand, you said it has grown 12% YoY, so what has been the price changes that you made in the Sainik brand and how it is placed against competition?
- Sajjan Bhajanka:** Basically we were never concentrating on the Sainik and the second brand because we had an apprehension that it may adversely affect our main brand. So we were selling or producing or like wherever it was inevitable like we had unit in North where the plantation timber was being used which are not suitable for our premium product and whereas second and the rejects were coming out and where we had some outsourcing. But in Century brand we do not do any outsourcing. It really has to be produced in our factories only and whereas the second brand we

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Century Plyboards Limited
July 23, 2015

do some outsourcing also. So with this in mind but we had never promoting that aggressively. But now we have to go aggressively for the second brand. So that is why we are doing the advertising, mass advertising and the visual media practically for the first time and we have prepared the campaign and we will take it further because we are foreseeing, once GST is in place then a lot of unorganised players they may either tie up with us or maybe they will find it difficult to survive and there would be growth in the market because this cannot remain like sluggish for longtime. Housing has to play a major role if India is to grow. So in all this thing now we have decided we will run both the things or premium segments also and this secondary segment also side by side. So we have started promoting it.

Aman Batra: The question was that like you have not reduced the pricing of main brands Century ply in line with the raw material price correction, so have you tinkered with the pricing on the Sainik brand recently?

Arun Julasaria: In Sainik our every price realisation was better Y-o-Y. They are only selling the Sainik basically 15% cheaper in the main brand. So there is a price difference and at that level it was salable because it is again catering to the next segment; it is not pertaining to the niche segment; it is not getting to the premium segment. So this sluggishness was mainly there in the premium segment and most of our competitors they are concentrating in the next segment, the second value for money segment. So I think there the growth in our case is there also and their case it was there but in our case there was a problem that you were not having the sufficient producing capacity for this segment. Either we have to divert our production capacity for the premium product to the second product, so we were not doing. So now whatever we will make the best possible mix and we can try to utilise capacity to the full having a better mix of premium and the secondary and for us ideal situation would be that we maintain growth in the premium segment also and then we grow the secondary segment even faster.

Aman Batra: Understood and the second question is on MDF. Couple of months back when we had met you highlighted that you would probably like to get into MDF only when you are sure that it is the retail play and not an institutional play. So would that be true?

Sajjan Bhajanka: Whenever we will see money in MDF we will go for it. Now we are seeing money in MDF so we decided to go.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharti Axa Life Insurance. Please go ahead.

Ajit Motwani: On GST just wanted to understand the differential between you and a small unorganized player would largely be the difference in excise duty because of SSI benefits or are there any other indirect duty differentials?



Century Plyboards Limited
July 23, 2015

Sajjan Bhajanka:

SSI benefit is there and SSI units to 5 crores of production are exempted and most of the units they maintain themselves within 5 crores. So thereby they are availing the full exemption and apart from that this cascading effect of this thing around 30% on us, of the duties, their excise and the sales tax and VAT. So this is around 30% whereas the small players they are not very particular. So all types of adjustments are there, the value adjustment, the quantity adjustments, and their spends so with all these things there is a vast gap in their cost up to the marketing. So that is there and with GST like our 30% would be reduced to the rate of GST which is what we are sourcing may be around 20%-22%.

So in our case the cost will reduce, in their case cost will increase. We will continue to sell if what they can manufacture and sell within their state and within their area, but manufacturing in Punjab and going to Maharashtra would stop because the framework the mechanism, there would be check gates, so if one cross from one state to another state there could be some documentary evidence, irreversible which is forever and then the value paid in one state would be credited to second state automatically through the electronic network. So these things would be there. So they will make it impossible to undo the documentation.

Ajit Motwani:

No, I just wanted to understand let us say there is a manufacturer in Gujarat who wants to sell in Maharashtra. He does not pay a 12% excise duty which your plant in let us Kandla is paying, but he will pay a CST to a wholesaler in Bombay. So the differential today is only about 12% which is to an extent of excise duty.

Sajjan Bhajanka:

I will take one minute more time. Like now suppose we import timber. So there is only 5% duty on timber. So it comes to our factory and then we produce veneers. So there is say 12-12.5% duty on veneer and then there is CST, we sell it to a manufacturer. Then that manufacturer produces plywood. He buys glue, he buys another core, and everywhere he pays 12.5% duty plus one CST and then he manufactures. He get credits for the input but when he sells plywood so up to the second state he charge only CST, but the ultimate buyer he used to pay the state taxes also. But in GST once the timber is imported in care duty VAT and state GST, central GST everything would be charged at the port at the first point and then anybody using that material is to utilise that and use to keep the billing line so that they can take the credit of the duty paid at the time of import.

Similarly whatever generated anywhere would be charged the entire duty at the first point and then there is not much scope for every subsequent stage to manipulate because that will add only 5%-10% value and they have to pay only differential duty and similarly one dealer in Maharashtra will get everything duty paid and he will add another 5-10% value of the marketing and he will pay only 1.5-2% duty. So he will not accept any under willing because in that case he used to pay the rest of the duty. So that way this will work, that way even they will resist duty in GST but the revenue to the government will increase; the cost to the public will decrease and the manipulators in the process there they will suffer.



Century Plyboards Limited
July 23, 2015

- Ajit Motwani:** So are you suggesting the duty at the starting point which is the import itself will go up to 20%?
- Sajjan Bhajanka:** Yes the same, in GST whatever import will takes place in India at the first point whether it is raw material, whether it is finished product, the entire GST which would be prevailing in the country would be charged at the first point.
- Moderator:** Thank you. The next question is from the line of Rishindra Goswami from Locus Investment. Please go ahead.
- Rishindra Goswami:** Just wanted to clarify what is your capacity for face veneer in Myanmar?
- Sajjan Bhajanka:** In Myanmar we are already having four running peeling lines and each peeling line can peel at 8000 cubic meter timber per annum, so 40,000 is already there and few plant we are putting up, fifth is being installed.
- Rishindra Goswami:** I see, so it is already 32,000 and it will go to 40,000 and how about in Laos?
- Sajjan Bhajanka:** Laos, at the moment we have started two lines each in two factories and these two lines will be doubled in another 3-4 months. So we shall have four lines in each factory. So that would be 8 lines and with that is the same capacity second, then 8x8, it will be 64,000.
- Rishindra Goswami:** Sorry, Laos is two lines right now, you are saying?
- Sajjan Bhajanka:** In two units; we have two units in Laos; there are two lines. But Laos there is one difference there our stake is only 51% and we have a partner for 49%.
- Rishindra Goswami:** Understood. So once it is all done you will have 80,000 cubic meters of capacity?
- Sajjan Bhajanka:** Yes, our share would be 80,000.40 here and 40 in Laos out of that total 64. So 32 we shall have there in Laos and around 40 in Myanmar.
- Rishindra Goswami:** Correct and currently you are operating just Myanmar three lines?
- Sajjan Bhajanka:** Four lines.
- Rishindra Goswami:** So this quarter all four lines were operational in Laos?
- Sajjan Bhajanka:** Then 2x2, four lines in Laos.
- Rishindra Goswami:** So 6 lines you were running at full capacity this quarter?



Century Plyboards Limited
July 23, 2015

- Sajjan Bhajanka:** Laos material has just started coming and first consignment arrived in the month of July only.
- Rishindra Goswami:** The reason I was asking is because you mentioned that face veneer sales were about 35 crores and if face veneer sales were 35 crores in the quarter this corresponded to production of about 30,000 cubic meters?
- Sajjan Bhajanka:** Yeah, almost same. There is one difference, this face veneer and the core veneer which generated in those units it is not fully marketed. It is core 100 percentage is used by our own unit, we hardly sell any core and only face which we are using the premium grade, A grade for our own purpose and we see grade only we sell in the market.
- Rishindra Goswami:** So I am just trying to understand when this 32 crores of veneer once all the production capacities is in place, I mean what can face veneer sales become?
- Sajjan Bhajanka:** Because we are reaching the saturation point, like our own consumption we are reaching the saturation point. So now we have started selling even A grade also because we had surplus of A grade, earlier this was used by our own factories. So that way now whatever the extra face which are coming up from the unit and even if some additional core is also coming so that also you may have to sell. So that way all the additional arrival would be sold in the market and actually it was partially used by us, partially sold.
- Rishindra Goswami:** And roughly what is the CAPEX per line of face veneer peeling?
- Sajjan Bhajanka:** It may be all arrangement, all together may be it is 4-5 crores each line.
- Rishindra Goswami:** 4-5 crores per line. Okay, the face veneer is what is the profitability on face veneer in terms of margin?
- Sajjan Bhajanka:** I think now minimum 25-30% margin is there.
- Rishindra Goswami:** And just one last question on the MDF side, MDF the unit that you are planning where you are saying the CAPEX could be 300 crores including power plant the unit capacity will be how much?
- Sajjan Bhajanka:** 400 cubic meters.
- Moderator:** Thank you. The next question is from the line of Ramnath Venkateshwaran from LIC Nomura Mutual Fund. Please go ahead.
- Ramnath Venkateshwaran:** One question you have answered it, I could not capture that. The funding for the MDF, how are you planning to do that sir?



Century Plyboards Limited
July 23, 2015

- Arun Julasaria:** Like this year after giving 200% dividend still we are in surplus of lot of money. So we are not availing credit in CC account and that around 100 crores plus is available with us. So I think that will be sufficient to take care of our equity part and then avails of money, ECB and other things a lowest possible terms and may be for 3 years, buyer's credit at 1-2% against the import of merchandise, so that way we will fund our this thing at the lowest possible interest burden, so that will be done.
- Ramnath Venkateshwaran:** So equity funding will be from our side would be how much sir, like for the entire over the...?
- Sajjan Bhajanka:** Debt is easily in the project 2/3rd to 75%, and equity is 1/3rd to 25%.
- Ramnath Venkateshwaran:** And sir this machinery and all, what is the kind of machinery that we will be using for this plant like...
- Sajjan Bhajanka:** At the moment, there are only very manufacturers. We are going the Contipress. So there are only 4-5 people in the world, manufacturers in the world who are making it. So two are in Germany Siempelkamp and Diefenbaker and mainly two are in China. So one is again a subsidiary of Diefenbaker in China as SWPM another is Yellen. So Yellen is now doing well. In China last two years they have commissioned more than 30 lines.
- Ramnath Venkateshwaran:** And one last question sir, in terms of the payout ratios from our dividend payout ratio will you be changing because we have announced something last year. So we will continue to maintain that dividend policy or we will process the changing.
- Arun Julasaria:** We have sufficient money to take care of MDF and we have taken decision; we try to stick to 40% including the duty tax.
- Ramnath Venkateshwaran:** Okay, so that part will continue?
- Arun Julasaria:** Yes.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Securities Ltd. Please go ahead.
- Atul Mehra:** Sir just one thing on, you spoke about price decline in the overall raw material environment for us. So if we were to take a price cut like competition would have taken, so what would have been the quantum of that?
- Arun Julasaria:** It may be 4-5%.
- Atul Mehra:** And right now post Q1 have prices been stabilising or there been further decline in pricing. So which could perhaps increase the...?



Century Plyboards Limited
July 23, 2015

- Sajjan Bhajanka:** I think it will stabilise at the present level and in the month of July we are seeing better demand and better growth. So in South India demand is fully recovered for our type of product and in Eastern India also it is good in West and North.
- Atul Mehra:** Right, and secondly sir my question on MDF businesses, so in the proposed unit that we want to put up in Punjab, so do we have any tax benefits that will be available?
- Sajjan Bhajanka:** It is not 100% this thing, but we have still three of them. We have a license in Nellore, in Andhra Pradesh; we have a license in Uttarakhand; we have a license in Punjab and those were taken long back, so two of them already revived but the third may be revived. But now seeing the long term availability of raw materials and seeing the better market process, may be at the moment we are finding North India or more particularly Punjab would be more viable because the existing plants are in Uttarakhand and even that is on the hilly area and other thing and the main market is Punjab, Haryana, Delhi and this thing. So those people there are still logistic cost in taking the material to the nearest market. So that way that may be a better proposition because that time there were tax exemptions.
- Atul Mehra:** Which no longer exists?
- Sajjan Bhajanka:** And now there is no exemption anywhere, and Punjab there is exemption, they give around 80% weight against them. So the unit put up in Punjab, so as per their announced policy there would be around 80% exemption on the VAT to the total cost of the project. Say we invest 300 crores then 240 crores worth of VAT exemption which we will get in Punjab.
- Atul Mehra:** But there is no excise exemption assets, like it was in the past?
- Sajjan Bhajanka:** No, excise exemption is not there and more or less on the Uttarakhand unit there is also adjust their exemption by the time we come into the production. So we sell at par at the advantageous position to the rate exemption, GST exemption.
- Atul Mehra:** Secondly what is the RoCE that we would be targeting in the MDF business because some of the units in Punjab in terms of have been largely doing 20-22% RoCE led by the taxation benefit that they would have, so what is the RoCE potential that we would target in MDF business and what is the kind of time period it would take for us to reach to the particular target?
- Sajjan Bhajanka:** Now we can benchmark against the existing units only and the last quarter they have done well. So there used to be good growth and like marine there. So it should be there, so there is like say 10-15% EBITDA minimum would be there.
- Atul Mehra:** And asset turn would be about 1x so?



Century Plyboards Limited
July 23, 2015

- Sajjan Bhajanka:** Yes, that is a minus point in MDF, but that will be less.
- Atul Mehra:** So overall RoCE would be only about 15% then, right?
- Sajjan Bhajanka:** We have to work out in fact. RoCE part we have to work out. Once we cease the plant cost and financing pattern then only we will be giving you better idea about RoCE. But normally the RoCE in MDF is near about of 20-25% which you will find from study of the existing units.
- Moderator:** Thank you. The next question is from the line of Vishal Gajwani from Birla Sun Life. Please go ahead.
- Vishal Gajwani:** I joined late, just wanted to understand Q1 volume growth was weak. What is the guidance for the full year or the 9 months?
- Arun Julasaria:** It should recover, the past loss also, the quarter one and we shall end up the year with minimum 15% growth.
- Vishal Gajwani:** Volume growth?
- Arun Julasaria:** Yes, volume and value would be more or less the same because this year we have not increased any price and it is not likely to be increased also.
- Vishal Gajwani:** This is consol growth or plywood growth?
- Arun Julasaria:** It is the total growth, total company growth.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor back to the management for any concluding remarks.
- Sajjan Bhajanka:** We thank all the investors and they have supported and they have given us a very good value appreciation in last year and now it is our responsibility to come up to their expectation and we shall try our best to grow the company to maintain its leadership position in the panel industry and at the same time we are always working on the expansions. So hardly there was any either Greenfield or Brownfield like expansion was not there. So we are continuing with that and we have grown at the rate of 25% CAGR for the last 17 years. So we sincerely hope, there may be in particular year it may not be 25%, may be 15%. Next year some acquisition or something it will be 35% but we are maintaining for the long term, we have targeted the 25% gross would be there. So that we are targeting and this will do and we thank you very much for sparing your time and coming to this conference. Thank you.
- Moderator:** Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.