



“Century Plyboard (India) Limited Q2FY15
Earnings Conference Call”

November 03, 2014



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



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Moderator: Ladies and gentlemen, good day and welcome to the Century Plyboard Q2FY15 Earnings Conference Call hosted by Ambit Capital. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after 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 would now like to hand the conference over to Mr. Achint Bhagat of Ambit Capital. Thank you and over to you Mr. Bhagat.

Achint Bhagat: Good afternoon everyone and thank you for logging into the call. We have with here today the management of Century Plyboard lead by the Chairman Mr. Sajjan Bhajanka and the CFO Mr. Arun Julasaria. Now I request the management to take us through the key highlights for the quarter following which we will open up the floor for questions. Over to you, sir.

Sajjan Bhajanka: Good afternoon friends, I am Sajjan Bhajanka – Chairman of the company and my CFO Mr. Arun Julasaria has joined me in welcoming you to the second quarter results call of our company. The company is well on track and consistently booking growth across all segments although the growth for the current quarter is 16% year-on-year basis which is due to festive months and other reasons but we are confident that by the year end we will be able to achieve our targeted growth of 25%. The company is expecting huge opportunities and growth and demand in coming months and years. I feel that in future demand will not be a problem and it maybe that supply will be a constraint so we are preparing ourselves to the bearded challenge of arranging raw material.

As our Myanmar venture what is first in the industry and it was started before the ban import on export of timber from Myanmar and it is quite helpful for the company, so similarly we are now planning one more venture in a timber rich county that is Laos. We have arranged with a local saw mill owner who have also timber operations, so our stake and our holding would be 51% and the local owner has with him land, shed, electricity and water connected and the machineries and technical knowhow would be provided by us. Local partner will also ensure supply of raw material and we shall ensure marketing of the product. This will involve fixed investment of around US\$2 million and it is likely to commence production by next February.

Now I ask our CFO – Mr. Julasaria to take you through the results and the business highlights post which we will be pleased to answer your queries and questions. Thank you. Mr. Julasaria?

Arun Julasaria: Good afternoon gentlemen. This is my second con call with you gentlemen and some of you might have interacted with me in the past and some of you might be interacting first time. So I would like to start with brief introduction of the company and businesses. But before I will like to mention that this con-call is just to discuss for historical numbers in future plans of the



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company and it should be taken as forward-looking statements. This should not be taken as any recommendation or invitation to invest in the company.

Now about the company, we are a plywood company with four reportable segments- plywood, laminates, CFS that is container freight service operations and other. For the quarter revenue mix was plywood 74%, laminate 19.5%, CFS 4.5% and others 2%. Results have been published four days back, you gentlemen must have seen the results so I will not elaborate figures, I will just summarize the figures and similarly I will speak about some figures. Our quarterly year-on-year net revenue increased from Rs.351.8 crores to Rs.407 crores, so a growth of 16%. Quarterly PBT increased from 23 crores to 42 crores showing a growth of 83%. Quarterly year-on-year PAT increased from 22 crores to 35.7 crores showing the growth of 62%. So this was performance of second quarter of this year versus second quarter of last year.

Now I will speak about the figures half year of this year versus half year of last year. Net revenue increased from 635.5 crores to 769.7 crores showing a growth of 21%. EBITDA increased from 9.4% to 14.8%. Six monthly year-on-years PBT increased from 17.47 crores to 72.67 crores. Freight increased from Rs.17.8 crores to Rs.61.4 crores, showing a growth of 245%.

Now we will be free to take your questions.

Moderator: Thank you very much. Ladies and Gentlemen we will now begin the question-and-answer session. Mr. Bhagat you can ask your questions while the question queue assembles.

Achint Bhagat: I think the question queue has come so let's start. I will ask somewhere in between when the queue isn't big enough.

Moderator: Our first question is from the line of Meet Chande from Equirus Securities Please go ahead.

Meet Chande: Sir, just wanted to understand that before we were importing raw material from Myanmar right, raw timber?

Sajjan Bhajanka: Yes, it was not only Myanmar, we are importing from many countries but predominantly it was Myanmar and which has been banned from 1st April this year.

Meet Chande: And after that we have set up the plant over there, right?

Sajjan Bhajanka: Actually we planned unit much ahead of that and we started production in Myanmar unit region prior to the ban imposed but now we increased the capacity. Earlier we started with a two lines now we have already commissioned third line and we are likely to commission fourth line very soon.



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- Meet Chande:** Okay sir. Just wanted to understand sir that we are now importing the finished products from Myanmar, right?
- Sajjan Bhajanka:** Yes.
- Meet Chande:** So will there be any excise duty in Myanmar or what would be the percentage of that?
- Sajjan Bhajanka:** There is no exchange duty because Myanmar is part of ASEAN and under the trade agreement maybe now on veneer a nominal duty of 2% is there and earlier when we were importing timber the duty was higher, it was 5%. So now due to FTA applicable duty has reduced to 2%.
- Management** Thank you. The next question is from the line of Hiten Sampat from Quest Investment. Please go ahead.
- Hiten Sampat:** Sir just a couple of questions, one was employee cost to sales this quarter is up than the last couple of quarters, so is it because of some specific bonus or something?
- Sajjan Bhajanka:** Yes, I think Mr. Julasaria will take it.
- Arun Julasaria:** Yes, employee cost has gone up by almost 30% so near about 12% is normal increments given to our employees because of their inflationary cost. Apart from this as we are planning rather we are penetrating into new markets of affordable segments and Tier-II and Tier-III cities, so we have recruited near about 500 more people in our sales force and our number of units have also gone up so number of employee that way gone up.
- Sajjan Bhajanka:** We restarted Kandla unit and we have doubled the capacity of laminate units, so for them also we have recruited new people and marketing obviously we are now entering the Tier-II and Tier-III cities.
- Arun Julasaria:** So number of employees have considerably gone up to meet future challenges, future demand.
- Hiten Sampat:** So there is no one time element, so now going forward the rate will remain
- Arun Julasaria:** It will be continuing to remain. It is a continuing element but in the coming years and coming quarters the revenue will increase.
- Hiten Sampat:** Right. So as a ratio it will then come down?
- Sajjan Bhajanka:** And many of them new recruit, they are undergoing the training like orientation course. So we are taking them through factories, through different marketing offices, so many of them are not effective by way of their contribution and real sales. So that is going on and this is a futuristic process.



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- Hiten Sampat:** Okay. And sir within your materials cost as a percentage to sales, other than raw timber what are the other materials that we use and any impact of crude coming on that, any positive impact?
- Arun Julasaria:** It should come, since last few days we are constantly seeing that HOC reducing the phenol price in one go Rs.7,000 a ton, Rs.3,000 a ton; so there is impact. But until last quarter there was not much of an impact because our other than timber the adhesive is bigger like component and the raw material so that is mainly adhesive and timber. So on adhesive front last few quarter price wise going up, but now the trend has been reversed because we all are petroleum based.
- Hiten Sampat:** Okay. And how is the phenol supply side sir, any more capacities coming up which will help you?
- Sajjan Bhajanka:** In India no capacity is coming up but India hardly makes maybe 20%-30% demand in the country, the rest is being imported. So we can import from any country where it is abundantly available.
- Hiten Sampat:** And price parity imported and local is?
- Arun Julasaria:** Imported is cheaper.
- Hiten Sampat:** Cheaper, okay.
- Sajjan Bhajanka:** Imported is cheaper than HOC
- Moderator:** Thank you. Our next question is from the line of Raj Mehta from PPFAS Mutual Fund. Please go ahead.
- Raj Mehta:** Yes, you told that the revenue grew by 16%, can I get the volume and value breakup?
- Arun Julasaria:** I will take you through the volume figures; you will like to tell year-on-year figures?
- Raj Mehta:** Yes, year-on-year.
- Arun Julasaria:** Year-on-year figures I will take you through, in fact in plywood, plywood segment there was volume growth of 10%, overall growth was 8% across different plywood segments, different plywood sub-segment and in laminate it was 15% and in container freight station it was 22%.
- Moderator:** Thank you. Our next question is from the line of Chinmaya Garg from Dron Capital. Please go ahead.



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- Chinmaya Garg:** The point is, I just could not get the venture that you planned in Laos, so if you could throw some light on it, that is one. And two, in the long-term, I mean you have just expanded capacity right in plywood and laminates both, right?
- Sajjan Bhajanka:** Yes.
- Chinmaya Garg:** So by what time do you think at the rate at which your demand is going will you need to put in further CAPEX, 12-18 months?
- Sajjan Bhajanka:** Laminate I think we have doubled the capacity and that was commissioned by the end of last year so this year we are not planning any further expansion but we have already 90% capacity utilization in laminate. So we have 100% addition in the capacity. So with that by the end of the year we shall be fully sold and next year maybe we said we are planning something in laminates and plywood again, last year we have headed our Kandla unit and Kandla unit we are doubling the capacity so there would be some expansion. But it is not big and you know plywood is a low asset based module and cost of the machine is not much so whatever internal accrual is there that will take care and even in Myanmar unit also we are expanding capacity last year to four lines this year.
- Chinmaya Garg:** Two lines to four lines, yes.
- Sajjan Bhajanka:** Third line is already commissioned and it is fully productive and fourth line shall be commissioned very soon.
- Chinmaya Garg:** So the issue is the total CAPEX that you are planning say in the remaining part of this year and would be how much, how much more CAPEX in this is more?
- Arun Julasaria:** So far already planned and sanctioned would be hardly in 25 to 30 crores.
- Chinmaya Garg:** And that will be all for this year or you will have more CAPEX balance for this year?
- Arun Julasaria:** This year I think only we have five months so we are not planning any more CAPEX.
- Chinmaya Garg:** Okay. And for next year?
- Arun Julasaria:** Next year, actually things are stepping up and there is a growth in demand in different areas and again we may have to go beyond the boundaries. So at the moment we are at the planning stage so we have not seen any CAPEX then seeing the requirements and other things and our internal like income and other things so accrual salaries we will take into account. And after that we shall plan because we have to augment capacity just to meet that demand to boost our profit. But at the moment for this year it is around 25 crores.



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- Chinmaya Garg:** Sir so for next year will the number be more or less than 50 crores that you could be planning, I am just throwing a ballpark number.
- Arun Julasaria:** Next year at least this will be there.
- Chinmaya Garg:** At least 25 crores?
- Arun Julasaria:** 60 crores CAPEX would be there because in our all existing units there is scope to balance it and to add more machines so we shall do and we are doing it all along, last many years we are augmenting capacity so our all the units are from one line, we started with one line each unit now all the unites have four to five lines. So wherever possible we are augmenting the capacity. But once the infrastructure is in place so add more machines and more lines, it is not very costly affair.
- Chinmaya Garg:** One more question on the Laos Vietnam venture, have you tied up with someone, have you bought a company, what have you done there?
- Sajjan Bhajanka:** Vietnam we have not done anything, Vietnam we are sourcing the raw material from suppliers. This is Laos, Laos we have tied up. Laos, there was a local manufacturer who have already started veneer unit and then he tied up with some local manufacturers and it was a tripartite sort of arrangement where that already there is a Indian gentleman who is already present in Laos, he would be our partner and he has to some extent local status because he married a local girl, so his wife is local resident and she is a very qualified lady, she is like management graduate
- Chinmaya Garg:** Still that's only a supply agreement for you, you are going to get supply of timber right from there?
- Sajjan Bhajanka:** No-no, it's ownership in the company.
- Chinmaya Garg:** It is an ownership?
- Sajjan Bhajanka:** And we'd be investing in machines, he has already like land, shed, electricity connected, water connected; then we have to give machines and then he has timber concessions also so we have fixed rate for the timber to be delivered to the factory and then that includes the manufacturing cost also. So he will give the timber, manufacture it and supply it and after that transportation, the port expenses
- Chinmaya Garg:** What will you get from Laos, you will get timber or you will get finished product?
- Sajjan Bhajanka:** No, so it not the ultimate product, it is intermediate product. Instead of timber most of the countries are banning the export of timber so we will get veneer.



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- Chinmaya Garg:** So you will get veneer, that's what you are saying?
- Sajjan Bhajanka:** Timber is converted to veneer.
- Chinmaya Garg:** I understand that. So you will be veneer from Laos, that's what you are saying right?
- Sajjan Bhajanka:** Yes.
- Chinmaya Garg:** Okay. Now the point is you had said earlier that from Myanmar they had banned timber so there is some stock lying with you which can significantly improve your margins, you had some low cost stock lying and you said that that will take some time because everybody still has his own supply of timber because a ban was imposed from April, so people would have three four months of supply already, then you would actually get the benefit of it.
- Sajjan Bhajanka:** Actually, earlier I explained that Myanmar was not the only source of timber, timber was coming from Malaysia, it was coming from Laos, it was coming from Papua New Guinea, predominantly it was coming from Myanmar, but once Myanmar is banned so we augmented our resourcing from other countries. So now when the ban was imposed we had six months inventory, in between we received more material from different sources so now we have inventory upto December. And I think within these another two months and that the new season is starting maybe we shall be comfortable upto March also and beyond that. When the one door closes many other doors open, so now there are some specifics discovered from Africa, some other countries, maybe gradually that would replace the Myanmar supply.
- Chinmaya Garg:** But what about the industry, you said you are a benefit over the industry?
- Sajjan Bhajanka:** Yes, because all are not equally capable and maybe Century and Green, they have presence everywhere and they have resources; so for small unit for them to invest to take risk like going to distant countries may not be a very easy thing and already they are struggling because there is paucity of timber or even the veneer and they are not able to maintain their productivity and profit.
- Chinmaya Garg:** So would you see the kind of top line growth 25-30% that you are seeing for this year going into the next few years also, is that what you estimate is?
- Sajjan Bhajanka:** Yes, traditionally Century Plywood had maintained a growth rate of 25% from the inception. So this is our basis. We usually never compromise with that so keep on targeting 25% growth all the time so that is basis but now I see scope for further growth because once we are going beyond boundaries so we are establishing new unit and maybe we shall have some scope later on to even acquire some units abroad. So once we acquire that that will augment our total sales.



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Moderator: Thank you. Next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: Sir, few questions from my side. Sir firstly, across home building categories be it tiles, be it sanitary or etc, we have seen that volume growth has slowed down then what we saw in the last four five six quarters, so is it something that even you are witnessing? High channel inventory, slow down in Tier-II Tier-III or is it just a temporary blip and you expect the growth to come back in couple of months only, what is your view on that?

Sajjan Bhajanka: There is clear cut two division, one is until the building is ready there is huge inventory in the country of the ready material like the availability of the homes. So and the tiles and even the sanitary ware are consumed before the building is ready and that sufficient inventory is lying. But our role comes once sales takes place, when people buy flat or the area and after that they start decorating. So now there is spurt in the selling activity in the real estate front and gradually we are seeing more and more demand. And with anticipated reduction in the interest rate maybe the turnover of the finished product in the housing segment would be much larger and then I see better scope for our company.

Achint Bhagat: Okay, but you haven't seen any sort of slowdown as compared to last year in the industry volumes?

Sajjan Bhajanka: See, particularly in our industry the plywood industry, plywood and panel it has maintained always a better growth rate because our bottom line was very low where our counterparts in the other countries in Europe and other things, their per capita plywood consumption is more than 100. And in India we are still struggling with a 1 square meter per capita consumption, so that line is very low. So the growth in plywood and panel industry is much higher in comparison to other industries in India, so our industry is less impacted from the slowdown in other fields.

Achint Bhagat: Okay. Sir in terms of buyer's credit that you were carrying in your books at the end of the year, how much of that buyer's credit is left and how much have you repaid and how much will you repay by the end of FY15?

Arun Julasaria: Achint our buyers credit volume have come down by almost 40% to 50% because earlier we were importing timber from Myanmar through Singapore traders, then I had a option of availing suppliers credit or buyers credit from bankers, so I was carrying FOREX liability in my book. Now Myanmar unit is buying timber their on cash payment basis so what is happening now, whatever buyer's credit I am getting in my books is for import before 31st March. So gradually I am paying but new liabilities are not being created, so my FOREX liability is coming down everyday so compared to March it has already come down by almost 35%, 300 crores in INR terms it is now 200 crores. So that means I am insulating myself from FOREX risk.



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- Achint Bhagat:** Right. But now rather than taking buyers credit now for timber procurement you are paying in cash in Myanmar?
- Arun Julasaria:** That is the mode of payment in Myanmar right now because we have to buy from local traders or from the Myanmar Timber Facility. Even from our own need, we have to remit the entire billed amount in advance and they get the export permit only after showing that remittance receipt from the buyers.
- Achint Bhagat:** And sir in Laos, the 10 crores of investment that you are doing in Laos. So what is the exact structure in terms of what will be the cost of manufacturing space timber there vis-à-vis manufacturing that in Myanmar? What is the capacity there and what is the longevity of this investment like is it for the next 6 years, 10 years or is there any gap over which you can use it?
- Sajjan Bhajanka:** There is very good scope and if I share everything with you, then you will fly to Laos tomorrow and you will start a new factory there.
- Achint Bhagat:** So sir, just if you could take us through the cost, so the broad cost and how will it be different from Myanmar and what is the capacity that you would have?
- Sajjan Bhajanka:** Basic thing that earlier there used to be higher import duty on the finished product. There used to be lower import duty on the raw material. It is no more the case and these all countries are ASEAN countries. So with the FTA in place, the duty is nominal either zero or up to the most 2.5%. So whether it is finished products, whether it is raw material, it is more or less the same. So that way it is inflated from that and the other advantage like raw material when timber is imported, so say 100 tonnes. So against the 100 tonnes timber, finished products would be 30 tonnes. So there is a huge logistic saving and that benefit we are getting. And these all countries are not very high index countries. Their labor rates and this thing in comparison to India is not very high if it has been in Australia or New Zealand or some other countries, then their labor costs would have been huge. But like Myanmar, Laos, Vietnam, they are more or less similar to India.
- Achint Bhagat:** Sir my question basically was to understand currently that you have in Myanmar vis-à-vis if I compare this to Laos, will your procurement cost be any cheaper, any more expensive?
- Sajjan Bhajanka:** It will be cheaper than Myanmar.
- Achint Bhagat:** It will be cheaper than Myanmar and what capacity can it cater to, the peeling unit?
- Sajjan Bhajanka:** Again then, the scope is unlimited. There also, we are starting with the two lines like we have started for Myanmar. Then very soon we sell at the third line, then we sell at the fourth line. So gradually will increase because we have to train the local labors. We have to take some people from here, but we cannot take the entire labor force from India that would not be permitted, at

the same time it will be very costly. So few people will take from India. Then few if we get some trained people locally, we will recruit them and then rest we will train. In Myanmar, we have trained all the people.

Achint Bhagat: Okay sir, get the point. And that will be only faced timber exports into India for your own manufacturing and also selling to unorganized?

Sajjan Bhajanka: At the veneer stage, there are two products. One is the faced, one is the core. So core, we are consuming ourselves. Entire core manufactured anywhere would come to our factories. Faced, partly will come to us and partly would be marketed by us to other plywood factories in India.

Achint Bhagat: And sir in terms with your price hikes in the first half of the year, how much price hikes have you taken and compared to last year, now given that unorganized has lost comparativeness in this year. Has it been easier to push price hikes and what are your views on taking price hikes in the balance part of the year both in ply and in laminates?

Sajjan Bhajanka: The effective price rise during this year is between 6%-7% and again we are not required to increase further because dollar is very stable. So earlier like almost June, July, August, September last year, the dollar was around 66-67. So this year it is around 61 and last year, the hedging cost was very high. So people by and large they were hedging. Then the effective cost of dollar becoming (+70). So this year, it is 61 and as dollar scenario is stable, so people are not hedging. Similarly, we are also not hedging. So our actual cost of the dollar is around 61. So that way there is less stress on our raw material costs. So that way we are getting some comfort from that side. So 5%-6% we will leave with that for time being.

Achint Bhagat: So basically in the next few months, you do not expect any further price hikes?

Sajjan Bhajanka: Not until March-April.

Achint Bhagat: And sir just last two questions. So in the unorganized segment, we were expecting that given that raw material procurement from them has become difficult, their supplies will reduce in the system and hence companies which are well entrenched like yourselves and Greenply would gain market share over them. Have you see that unfolding, are you seeing lower supplies from unorganized?

Sajjan Bhajanka: Unorganized sector gradually their cost is also increasing and in direct marketing, they are realizing less because they have no brand value and nothing. So many of them are now tying up with some established brands like Greenply or Century. So there we do not see any scarcity of the material or supplier and at the same time like the Century price, we have a policy that Century brand we do not outsource. So that is our internal limitation. All the Century branded products would be manufactured in our own factories for the better quality and another control.



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So there we do not compromise and we do not procure from markets, but our secondary brands like Maxima or Sainik or other things that only we outsource and there we have now set of suppliers who are regularly supplying to us. We have deputed out people for quality control. So we are not seeing any problem that supply line in fact we have increased in last quarter or outsourcing we have increased.

- Achint Bhagat:** And sir in terms of your other expenditure that gone up materially in this quarter. What is the breakup? Why has it gone up so much? Is it only advertisement or is it something else?
- Sajjan Bhajanka:** Advertisement, this year we have spent 25 crores in this 6 months against 10.59 crores last year. So there is 15 crores jump because last year that was impacted by the FOREX loss and other things. So we are preserving some money. So this year we have resumed our normal spending of 4% on advertising.
- Achint Bhagat:** So that means you maintained your 4% as a percentage of sales expectation for the entire year in terms of your branding and advertisement cost?
- Sajjan Bhajanka:** Yes. We have planned policy from the beginning that we shall exist in brand around 4% of our revenue. So that we are doing except few acceptance in between.
- Achint Bhagat:** And sir in terms of laminates, are you going to launch a separate campaign in laminates as well or anything specifically to view laminate now that business is also becoming fairly big in the overall scheme of things.
- Sajjan Bhajanka:** Fortunately, my son Keshav Bhajanka, he is also sitting here and he is in charge of laminates. So just I will give him opportunity to explain to you.
- Keshav Bhajanka:** For laminates, traditionally we have never focused too much on a campaign or ATL. It was primarily focused on BTL. This year we are changing that policy and we are investing substantially in ATL because advertisement will be live on air tentatively between 5th and 10th of December. The advertisement has already been shot and basically the screening is on. And I think will be on air within 4 weeks from now.
- Achint Bhagat:** So separate campaigning for laminates as well.
- Keshav Bhajanka:** Yes, there is a separate campaign that is coming and it is a very strong campaign, very similar to the lines of "Khushiyon ka Rangmanch" that we have done earlier and it is independent and it will start next month.
- Achint Bhagat:** And how has been the performance of your furniture business sir, any kind of traction that you are getting there?



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- Keshav Bhajanka:** In the furniture business, initially was very difficult for the first two years. Being a company, we never will focus on retail itself, we had a tough time, but now we are seeing the rewards being paid off and this year from two stores at the start of the year on the 1st of April, we are already sitting at 16 stores that we will signed up and being commenced. We already commenced with 8 stores and we are getting a superb response from the market especially in our kitchen segment where we use our own Century Ply material. Customers are willing to pay a huge premium and they realize that investing in their kitchen with Century Ply is something that will pay them dividend for the next 10-15 years. So our quality promise is really helping us in that segment.
- Moderator:** Thank you. The next question is from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.
- Subramaniam Yadav:** Sir, on the MDF front, are we still importing from Vietnam or we are planning to set up a factory in India? And what are the prospects in MDF?
- Arun Julasaria:** We are still outsourcing from Vietnam or some other sources. And at the moment, we are not planning factory immediately.
- Subramaniam Yadav:** Chetan, but how are the prospects for MDF because Greenply is doing well in that.
- Arun Julasaria:** Again the financials are not very good and for the new unit like investment would be there and with all these things in our calculation, this thing still we are not seeing profit. So until we see profit at the planning stage, our board will not clear the project. So when we see clear profit after commissioning, then only we will go ahead with it.
- Subramaniam Yadav:** Sir currently on the imported front, we are incurring loss in that segment?
- Arun Julasaria:** This is the landed price of the material. It is cheaper than the cost of the Indian manufacturers because we are importing at port destinations. And in India, most of the facilities are there in the North India in the hill districts. So our destinations like taking material there from North India to South or to the port cities is much more costlier than the container cost from Vietnam to those ports. So that way taking logistics together, our landed cost is much cheaper than the Indian cost.
- Subramaniam Yadav:** And sir, what about the modular furniture and kitchen sir? Is there any good opportunity in that?
- Arun Julasaria:** In our furniture division, we are expanding our capacity. So now as Keshav has explained, already we have signed up more than 20 franchises and within December, the 16 would be operated and by the end of the year, we hope more than 30 franchises will be there. So once substantial number is there, demand is there. Now we are foreseeing from outside India from China, Malaysia, Philippines, Thailand, Turkey, and then from some Indian manufacturers. So once sufficient demand is there because we shall start with a sizable factory, we cannot start with



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a very small factory. So sizable factory would be viable when we have sufficient demand. So it is in our planning that once we have stable demand, we shall go for furniture manufacturing.

- Subramaniam Yadav:** But currently we are incurring loss in this segment right?
- Arun Julasaria:** Hopefully, the loss is left behind and this year, we shall have some nominal profit or at least there would not be any loss.
- Moderator:** Thank you. The next question is from Ravi Chandran M from Unifi Capital. Please go ahead.
- Ravi Chandran M:** Sir, I have only question. So you talked about outsourcing the secondary product brand Maxima. Can you give some numbers to what extent you used to outsource in year back and what is the status now?
- Arun Julasaria:** So we are not outsourcing Maxima. We are outsourcing Sainik. Maxima is an economy product, we are manufacturing ourselves. I think I have mistaken while explaining it. Maxima is also our own product, Sainik we are outsourcing.
- Ravi Chandran M:** To what extent?
- Arun Julasaria:** Out of total 51,000 cubic meter plywood we sold, near about 12,000 was Sainik and we have seen tremendous growth in this segment because this is affordable segment, economic segment we are targeting now.
- Ravi Chandran M:** So in your overall sales, this segment is growing faster than your overall growth in plywood?
- Sajjan Bhajanka:** So this is the plywood which we are outsourcing. Here we are targeting the economic segment market, new market segment to smaller cities because in case of Prime, we found that we are plateaued and if we have to book a steep growth, we will have to enter into new markets and that will come from affordable segment because government is also now focusing on affordable housing and all that.
- Arun Julasaria:** Sainik is around 15% cheaper than the Prime product and Maxima in between.
- Ravi Chandran M:** So sir what I am asking is two things. One is you have Century Ply Maxima and Sainik. The lower version of your plywood is contributing almost to 20% in volume terms to overall sales. Out of 51,000, about 12,000 is from this segment. Is it increasing quarter-after-quarter in the last 4 quarters and where do you see this number may be another 3-4 quarters down the line?
- Sajjan Bhajanka:** If you see 6 months figures, you will find that we have sold around 78,000 of Prime and 21,000 is Sainik. So of course growth in Sainik is more, it is around 19% year-on-year on 6-monthly basis whereas in Prime, it was 15%. But realization was better in case of Sainik. In case of



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Prime, we could pass on only 4% price increase over last 6 months, but in case of Sainik we could pass on 7%. So leveraging is more in case of Sainik. The possibility of growth is also more in Sainik.

Arun Julasaria: And our profitability is also more in Sainik. Cost of outsourced product comparatively like about the nominal difference of 15%, still the cost difference is much more than 15%.

Sajjan Bhajanka: Apart from this _____ **46.36** this unorganized sector demand is going to come to the organized players and that will be of the segment only. So we will help to be ready for that.

Ravi Chandran M: So I have to just roll out to the assumptions for FY16. On overall sales, this product would contribute over 40%. For the first 6 months, it is almost 25%-30% now.

Arun Julasaria: Out of 25% on a year growth, there will be more share of the segment and again like all the time we are not able to expand our capacity. So in between we reached like saturation point, there is no more capacity left with us. That time, we have to concentrate on outsourcing for the other product and Century like supply becomes little difficult. So then only we start planning another unit for another capacity. So this we have done in last many years. From one unit, now we have 7 units and in one unit, it is one line; now almost we have 4 to 5 lines in all the units.

Moderator: Thank you. The next question is a follow up question from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.

Subramaniam Yadav: Sir one issue in plywood is the counterfeiting of the product sir. So how are we trying to avoid this because lot of counterfeit products are available in the name of Century also?

Sajjan Bhajanka: I do not think so because we keep a vigil and we take the market feedback. So in Century, this problem is not very prominent because most of our dealers are very loyal. And if some non-dealers start selling Century products, immediately that comes to the limelight. And our dealers, they never indulge in the activities and then we have some inbuilt safety mechanism like we give one strip of phenolic film which could be placed at the time of manufacturing only. So that safeguards and on the biggest of all is the quality of our product. When Century product, when a carpenter puts his axe or his saw on our product and if it is inferior product, it is very easy to cut, but Century not that easy. So immediately seeing the product, weighing it, cutting it, immediately we can say that this is not genuine product. So that way the carpenter safeguards it and then the dealers, they safeguard it and then some inbuilt mechanism that takes care. So unscrupulous of people they try, but they are caught in past in very short time and then we got them arrested, got the material confiscated. So people they know these things and so easily we do not see much of counterfeit products in Century.

Subramaniam Yadav: And sir how is the Jai Shree going to open up the opportunity for us in your analysis.

- Sajjan Bhajanka:** Because now the biggest segment is unorganized sector in plywood and unorganized sector must be account for 70% of the product. But they are not fully accountable. They are like resort to clandestine manufacturing and sales. So where they get both the duties, excise and sales tax. So within the state, it will go on in future also nearby their area of manufacture, but to once they sell it outside their state and transport it to the distant states or distant places, then they have to pass through the gates and other this thing. So once GST I sin place, then the buyer will not buy without fulfill because on the differential amount the dealer, he took as a tax. They will insist on full bill and once they insist on full bill, then this sales tax and excise because GST consists of both excise that is central sales tax. Central GST would be replacement of the excise and the state GST would be in replacement of the sales tax. So it will take care of both the things.
- Subramanium Yadav:** Sir in your sense, then this organized segment of 30% can double easily to 60%.
- Sajjan Bhajanka:** Yes, it is. Ten years back, our share was only 10% of the organized sector. Gradually with reduction in the excise duty and the introduction of VAT, we have increased our share from 10 to 30% and with GST, it will augment further.
- Subramanium Yadav:** With GST, we might increase from 30 to 50% of organized sector.
- Sajjan Bhajanka:** Yes, 30-50 should be there. And because in that case, some other player, they will tie up with some big brands and they will become the ancillary unit. They will start supplying to them.
- Subramanium Yadav:** Because then we can source from the unorganized players and then we can sell it to....
- Sajjan Bhajanka:** Yes. Then it will be easier for us to source the material because this hidden cost factor would eliminate.
- Subramanium Yadav:** So sir your vision of this 5,000 crores top line has factored in that also or we are purely going to do the.....
- Sajjan Bhajanka:** So far, we have not factored in that. So far we have not factored in GST.
- Subramanium Yadav:** It is not only our share kind of a thing.
- Sajjan Bhajanka:** Because now also, latest announcement was there GST is likely to be effective from the 1st April 2016. So it is a year and half away.
- Subramanium Yadav:** Sir but this target of yours 5,000 crores revenue and 500 crores of profit in by 2020, is it purely by way of our CAPEX only right?



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- Sajjan Bhajanka:** In the past we have maintained a growth rate of 25% in both the things. So that way it will increase and now with the branding and with all other things, we are increasing our EBTIDA margin and our PAT margin.
- Subramanium Yadav:** Sir currently we are doing around 14% margin and in the TV interview, you mentioned about 16% kind of a margin. Sir how is it going to come in?
- Arun Julasaria:** I think it was 16% this quarter.
- Arun Julasaria:** Q2 EBITDA margins were...Want to know which quarter, current quarter?
- Subramanium Yadav:** This quarter.
- Arun Julasaria:** Current quarter, overall EBITDA margins were 12.6%. This was in the corresponding last quarter and this year these have improved from 12.6 to 16%.
- Subramanium Yadav:** 16% and we are going to maintain this margin..
- Arun Julasaria:** 12.9 and 16%.
- Subramanium Yadav:** And we are going to maintain this over next two years?
- Arun Julasaria:** Yes, 15-17 is the range. So we will be able to maintain 16%. We are concentrating on the cost cutting and many other this things. So that is when the logistic improvement and reverse auction in raw material buying. So with so many tools and mechanism we are able to reduce our cost.
- Subramanium Yadav:** So this 15-30% margin may be factoring the Laos plant also right?
- Arun Julasaria:** Because it is cost from the imported cost from our own units abroad is cheaper.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Bhagat for closing comments. Over to you.
- Achint Bhagat:** On behalf of Ambit Capital, I would like to thank the management for giving us the opportunity for holding this call and I would also like to thank all the participants for taking out time and joining in. Thank you.
- Sajjan Bhajanka:** Thank you very much. Thanks to everybody.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.