



“Century Plyboards Limited Q2 FY2018
Results Call”

November 01, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2018 Results Calls of Century Plyboards Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Sajjan Bhajanka, Chairman, Mr. Keshav Bhanjanka, Executive Director, and Mr. Arun Julasaria, Chief Financial Office. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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. Amit Purohit from Emkay Global. Thank you and over to you Sir!

Amit Purohit: Good afternoon everyone. I would like to welcome the management and thank them for giving us the opportunity. I would now handover the call to Mr. Sajjan Bhajanka for his opening remarks and over to you Sir!

Sajjan Bhajanka: Thanks Mr. Purohit. Good afternoon friends. I am Sajjan Bhajanka, Chairman of the Company. Sanjay Agarwal our MD he also joins me and as Amit told Keshav is there, Arun Julasaria our CFO is also there.

Friends, this had been very challenging quarters as you are aware there are so many weightage due to the GST implementations and more particularly like in our field on laminates there were 18% GST, so it did well. There were a lot migration from unorganized to organized and we had a sort of supply all the time, so we are enhancing our capacity may be December onwards we shall increase our capacity by 50% then we will be in position to get the enhanced demand up to the extent of another 50%.

As far the plywood is concerned, yes it was a big quarter, but always there was a news that GST on plywood would be reduced to 18%, so channel was very apprehensive and particularly they were shying from buying the material, so they were maintaining their inventory at the lowest possible and in response to our inventory were increasing. So that way there used to be one month inventory in the channel, so that has substantially reduced, so as and when this is decided either side, either it is decided that it will remain at 28% or it is decided that it will reduce to 18%, so after that the normalcy will return to the market, but there are very fair chances that GST would come down, because we have been meeting with the people in position, bureaucrats, even the ministers and all of them are assuring us that we are working on restructuring the GST and likely that either may be in the next committee or the next to next committee only very few items would be kept in 28% maybe the ES goods or the sea goods and I do not think plywood would continue in 28%, but until

the final decision is taken we are keeping our fingers crossed, but in the meanwhile we are doing the best possible from our side.

Now our Chennai particleboard plant will be almost running to the full capacity. MDF is stabilizing and almost we have reached 70% capacity utilization and we are augmenting our marketing assets also, but hopefully will be in position to balance manufacturing and marketing, so whatever we manufacture we will be to market in the month of November. So there is where is a good demand for MDF so that way it is a positive thing. We are struggling to keep our raw material cost low all these quarters, first quarter and second quarter because of raw material is not coming from Laos and Myanmar.

Thankfully Myanmar government has allowed cutting of the timber from April 1, 2017 so the timber operations are going on and as usual in Myanmar in the last quarter we are expecting the arrival to our Myanmar factory and as soon as we receive the material from the jungle, we should start processing the same and again, we will be getting cheap raw material from Myanmar unit. Laos almost they have taken the final decision not to allow export of veneer so only last month we have received the remaining consignment from the earlier stock and now since that veneer would not come to India anymore from Laos. So one of our factory in Laos, we have converted to a plywood factory because the raw material quality is very good there, the prime material like architect for grade material that use Keruing and things, long durable hardwood is available there, so some premium products we have started the manufacturing in Laos itself and material have already started coming to India. So by and large scenario and now I hand over to Mr. Arun Julasaria for his initial comments and some financial data and thereafter we shall open for the question and answers.

Arun Julasaria:

Good afternoon ladies and gentlemen. Before I start I would like to say that this concall just to discuss some historical numbers and future outlook. It should be in no way to be taken as an invitation to invest in the company.

We have already circulated the financial results along with analytical presentation with detailed figure working and I hope most of you have gone through that, so I will not take much time in describing the figures. I will just take through the figures.

If you see the topline of the company, year-on-year there is a slight growth of 2.6%, but if you compare it on Q-on-Q basis then there is a growth of 8.2%. Likewise, if you see the EBITDA margin, which are now 15.7% compared to 16.6% year-on-year in last quarter, but if you compare it quarter-on-quarter, in the immediately preceding quarter it was 14%. So quarter-on-quarter basis there is substantial improvement, but if you see year-on-year there

is some decline on tax front you will find the tax for the quarter is bit higher, but if you see at six months the tax is at 21%, which can be maximum but for the quarter it is higher because of some low profitability in our exempted factory. If you see segmentally then our laminated division has outperformed. Now I will open the conference for question and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Anand Bavani from Samiksha Capital. Please go ahead.

Anand Bavani: Good afternoon Sir. Sir, on the cash front you mentioned lower profitability in Assam units led through higher tax rate, Sir can you elaborate a bit more on the reason for lower profitability in that unit?

Sajjan Bhajanka: In Assam major raw material comes from Meghalaya. Meghalaya forest they usually have working plan so this year so far the working plan was not released that is why the timber plants and the veneer from the jungle timber was not coming and then the veneer plywood are not coming and due to this scarcity prices increased from Rs.250 to almost Rs.400 for the plants for some timber and even after paying that amount these was not available, so now already they have got the working permits and now already the material has started coming and we have reached our normal production, but the prices yet to come down so from Rs.400 it has already come down to Rs.350 and may be in a month or two it will be back to almost the old prices, so that is the one reason and another was we have commissioned a new plant in Assam because the North East incentive scheme was expiring on March 31 last year, so before that we have commissioned the new unit in Assam and in that new unit Purbanchal timber we shall get subsidy for now another 10 years like excise, subsidy and even the transport subsidy so those recently we are getting for another 10 years so that was the idea to keep the benefit of excise going on, but in the meanwhile after the introduction of GST, especially this started with July 1, 2017 that it has covered the whole of last quarter, so we have yet to get single penny refund either the state GST on in the central GST. So that has disrupted our financials a bit because your part of working capital is blocked in that and Guwahati units, we were getting the excise refunds earlier and we had to pay only 1% sale tax, 99% we are refunded with our sales so in all unit we have expired our sale tax benefit, but in the new unit we are entitled to sale tax benefit, so the state government has not yet notified the modalities how will refund. They have announced they will do it. They have announced there was many disruptions on all the benefits under the NIPP and under state policy would be continued and the procedures would be appropriately modified to continue the benefit so that is the reason.

Anand Bavvani: Can we expect let us say once this state policy comes in there might be some tax reversals, may be we have old provision in this quarter is that the right way to think of it?

Sajjan Bhajanka: This is more pertinent to the northeast because in the north east earlier like whatever we are paying from the PLA in the cell zone we are getting that, but now central government has announced that whatever the central GST they get they will refund only 58% of that because 50% will go to state in view of the VAT and 50% will go to centre in view of the excise. So they were supposed to return the entire excise but they have issued the notification that they will refund only 58% of central GST because the amount, which they collect 42% of that they would be giving to the states and the states they have not notified AER. The states only Kashmir they have notified that yes we shall refund 42% from our state exchequer. So this debate is going on and you know government is very prompt in collecting the tax, but are very, very lousy in refunding the money. Hopefully within another month or two things will be in place and we are trying our best. We have approached the people, they say you can go to court because this is promissory estoppel we have put the investment against the promise, but we are refraining from that because all the minister, the states and the centre they are assuring we are giving the notification, and we shall give it, so we are refraining from going to court, because otherwise the matter would become subjudice and it may take longtime to settle.

Anand Bavvani: Sir, second question was on margins, now if I see our gross margins have fallen a bit, but EBITDA margins are broadly constant year-on-year, so there is an improvement in our reduction in our operating cost if you can help us to understand the reason for it and is this improvement in operating cost sustainable or is it one-off?

Sajjan Bhajanka: Nowadays our portfolio is this, we have some new plants like particleboard in Chennai, so where the interest is very high because it is a new investment and the raw material cost on the particleboard is very low, so EBITDA margin in particleboard is very high. So that improves our EBITDA margins similarly now we have commissioned an MDF plant. Again, there is more than 350 Crores investment, so again the interest would be higher there, but again the raw material cost on MDF is very low less than 50% of the sales realization. So there the EBITDA would be higher, so EBITDA I think for coming future would be higher and like states yes it will be a little less due to the reasons I have already explained the raw material cost is increasing, but if like laminates if GST reduce on all other products, which is very likely on the MDF, particleboard and plywood from 28% to 18% that will help the company to improve all the parameters.

Anand Bavvani: Thank you Sir. I will come back in the queue for additional questions.

Moderator: Thank you. We will take the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please of ahead.

Prashant Kutty: Thank you for the opportunity Sir. Sir, the first question is on the plywood side, you said that obviously the plywood demand was impacted by higher GST rate. I believe you would have even spoken about the same in last quarter about the way bill still has not come up so may be that will probably ease, is there a case that the unorganized market is growing much faster over here at this point of time, or is that the general demand is weak?

Sajjan Bhajanka: The major reason was there. They are generally dry now because they are expecting the GST rate on plywood would come down from 28% to 18%, so they are maintaining lowest possible inventory with them. So earlier at least one-month material used to be in the channel so that has to be reduced that is one of the reasons. Another reason in this quarter was the festive demand because the Durga Pooja was there and it was just like a month before Diwali, also people buy material little in advance so that just due to Durga Pooja and Diwali, there were some impact because as retail sale continues up to the last, but the wholesale sale from our side it stocks before the festival season and Keshav is also joining me and answering your question.

Keshav Bhanjanka: Prashant, it definitely will become easier for the annual basis, actually if you see when the state borders have been removed it is much easier to transact in black as compared to what was the situation earlier. Now with the check post has been removed it is practically impossible to control tax arbitrage, it is practically impossible to limit the amount or the quantum of the material that is moving so definitely the unorganized sector is having an advantage right now and this advantage is likely to continue till the e-way bill comes in on April 1, 2018.

Prashant Kutty: But in general Sir, just in regard to this festive demand you have said that thereafter how is the demand in the terms of, how the October trend been in the sense in terms of demand?

Sajjan Bhajanka: There are many signals that one thing is that the government is considering to increase the exemption limit for the composition scheme like up to 1.5 Crores that meeting in Delhi, two days back, they have decided to extend it from 1 Crores to 1.5 Crores, so earlier also the excise benefit was up to 1.5 Crores so only change is that earlier if they do not cross 5 Crores then they were getting benefit up to 1.5 Crores. So this time that limit is not there. So only unit legal would be who have not crossed 1.5 Crores in the last financial year and are not likely to cross this financial year and there are many other checks and measures so government is little bit shying away now saying all the protest in everything from imposing all the checks and measures, but they have to, they cannot give free hand to anybody

manufacture and sell and without any checks like that are no state borders like I said, so it will become very easy for them to move the material they are not filing any return also, so once e-way bill is introduced, once there would be some checks and measures then to understand, removal on these things may not be possible. Another change is that now because the projects they are getting input credit against the GST period, so everybody is insisting for the bills, for the housing sectors they are insisting for the bills, all the projects, all the government departments insisting for the bills, so there would be some pull for the duty paid material so that will help us. In future and when the checks and measures would be there then the unorganized sector because usually, again I will repeat, which I told in the earlier meeting consents that in plywood sector there are around 3300 units out of which 2500 units are totally exempted. They never cross 1.5 Crores turnover and there are 700 units, which cross 1.5 Crores, but they do not cross 5 Crores, so they are eligible for the benefit in the next financial year, so those units will now lose the benefit and out of this 2500 units if checks and measures in reality no plywood factory can survive with our annual turnover of 1.5 Crores, so if checks and yields are there the people asking for the bills and other things are there then there would be a sort complaints and once compliance is heard then there would be level playing field between the organization.

Prashant Kutty: Sir, my second question is on the MDF realization Sir, how are the realization trend in MDF Sir?

Sanjay Agarwal: Sanjay here. The MDF realization right now we have placed ourselves in the market, which is above our other competitors, but just equal to or may be 1% lower to Green so that we have some advantage in the market and the realization is about I think will be Rs.23000 per cubic meter, so I think that is what we expected also and the market seems to be quite ready to receive us and the first and the best thing which has happened is we have received the quality very well. They have appreciated the quality that which is the best quality possible in the market today, so if we win the quality war then the rest of the war we can certainly heighten a bit.

Prashant Kutty: That is all from my end. Thank you.

Moderator: Thank you. We take the next question from the line of Rahul Agarwal from ICICI Prudential Life Insurance. Please go ahead.

Rahul Agarwal: Thanks for the opportunity Sir. Most of my questions are answered. One last question on these dealer incentives has you seen any change in this or there is any change from your end on this?

Sanjay Agarwal: I think we have stringent formulas and we just keep changing the incentives at times, but the percentage outgo remains the same. In a particular quarter, it may be little low, in a particular quarter it may go little up, so all those things happen during the year, so what happens at times my sales people will decide that we will pay some money this quarter and we will spend in the next quarter or the last quarter something like that, so that is all, otherwise on a year-to-year basis you find this quite similar.

Rahul Agarwal: So because of GST there has been no change in your dealer margins or anything?

Sanjay Agarwal: No, right now I do not think there is a change.

Rahul Agarwal: Sir, on the MDF how do you see it ramping ups this year and the next year?

Sajjan Bhajanka: We are a little bit bullish on MDF because we have seen our present capacity for MDF in India at the moment is within 1 million cubic meters and China is now MDF capacity is 40 million cubic meters, almost 50% of worlds capacity and China's plywood volume is 60 million cubic meters and particleboard volume is 20 million cubic meters, so the plywood 50% and MDF and particleboard is 50% and in India MDF is within 1 million cubic meters, particleboard is again within 1 million cubic meters and the plywood I think is around 8 million cubic meters, so there is a vast difference, but ultimately what happens in China it happens in India may be after 10 years and this gap is bridging, so we are seeing the trend and particularly the particleboard and MDF. Particleboard is available at like plywood we sell usually for \$700 to \$800 equivalent per cubic meter whereas the MDF price is less than \$400 cubic meter and particleboard price is that is \$200 cubic meter, so there is vast gap and Indian market is very, very price sensitive. So in future the demand for MDF and particleboard would grow substantially and so I can say the demand for plywood or growth for plywood would be subdued a bit. Plywood also grows because you see it still growing in China. They are adding new capacity every year of the whole capacity, but the phase is slower and in India best of growth for MDF and particleboard would be much faster.

Rahul Agarwal: So Q4 should be good enough quarter for us to have our MDF plant completely in commercialization right?

Sajjan Bhajanka: Yes, in Q3 we shall achieve minimum 75% capacity utilization and Q4, I think we shall be operating 85% to 90% capacity utilization.

Rahul Agarwal: Looking at the current pricing scenario in the market you think your margin of around 20%, 25% would be maintained in that?

- Sajjan Bhajanka:** Hopefully.
- Rahul Agarwal:** My last question is on the unorganized dealer part so do you see them transitioning more towards being organized in that sense?
- Sajjan Bhajanka:** I foresee if things do not change, if the SSI limits or some of the business limits keep on rising because under the public pressure first they said it is 50 lakhs, 60 lakhs, then to 75 lakhs then to 1 Crores, now they come to 1.5 Crores tomorrow there may increase further, so there would be a scenario where both the sectors would exist side by side then some of the dealer whose turnover is very high because if they buy from non-GST compliance people then they have to pay GST and they can charge public, but they have to pay. So there would be two sets of distributors; one who is the big whose turnover is more than 1.5 Crores per annum. They will buy from the GST paid material from the organized sector and the people whose turnover is very less they may confine to non-GST paying companies the producers, but our total scope would be this, the volume wise we control only around 20% of market size, but value wise we control 30%. Both of this will increase, so volume wise also it will increase from 20% to say 30% and value wise also it will.
- Rahul Agarwal:** Thank a lot and all the best.
- Moderator:** Thank you. We will take the next question from the line of Rahul Agarwal from VEC Investments. Please go ahead.
- Rahul Agarwal:** Sir, good afternoon. Just to carry on the question of the earlier participant on the ramp up of MDF and particleboard so my understanding was MDF and particleboard both peak sales should be about for MDF it is about 500 Crores to 600 Crores and particleboard is about 60 Crores, 70 Crores, if you are saying that the ramp up is going to be so fast of 80%, 85% almost by a fourth quarter of this year so should we expect fiscal 2019 you should see full utilization and then you have to again announce capex for MDF is that understanding right?
- Sajjan Bhajanka:** Hopefully. I am seeing great future and I foreseeing the capacity expansion and even many other people are planning and then we will not leave any space for the other peoples to takeover, so I think Green is also planning the second plant in south and Action is also enhancing their capacity and hopefully we have to maintain our leadership.
- Rahul Agarwal:** On the operating margin side you said for both the segments we should average about 25% is that right or it should be lower because there is a lot of supply coming from other companies also?

Sajjan Bhajanka: There can be some temporary pressure on margins, but it should be temporary thing because there are many segments who are still not using MDF so if we do the promotion, we will reach out to them because now the limitation while the availability of material and usually the people are selling MDF against the government and in the last two or three years, I think whatever is manufactured in the county is sold easily and over and above that imports are being continued even paying antidumping duty, so because your availability is the major factor. There was a time only 200 cubic meters were available and that was also not being sold by Mangalam and New Chem and after that almost 1200 capacity came within a year and the entire material was sold within a year, so that way when the capacity will grow market will also grow. They sell much cheaper product reasonably good product, stable product and in organized contract manufacturing they use only MDF and particleboard. They do not use plywood at all.

Rahul Agarwal: So you are saying essentially even if the supply comes there is enough market to absorb and the margins for some temporary period might suffer, but overall it should continue in that range?

Sajjan Bhajanka: There is another thing. The northeast land so because the nearest port for the North India is either the Kandla or Mundhra or that side Kolkata or Paradip, so that way north is almost standalone, so the logistic cost for imported material to reach north would be much higher and if north market grows then we shall have upper hand, because Green's new facility is coming in South India and that Russell Décor's capacity is coming South India. So in North India our capacity is there and may be after six months or a year that excess capacity will come. There is one more thing I can tell you, if the GST becomes 18% instead of 28% presently MDF is fighting with the lowest quality of plywood of certain usage and the lowest quality of plywood is not exempted practically because they are not paying any duties or taxes, but the momentum it becomes 18% MDF with 18% duty and the plywood without any duty the lowest quality below the duty becomes very comfortable. So the usage of MDF will increase in a very big way, actually so that is what we are expecting that sooner or later may be one month or may be three months or may be four months MDF has to come into an 18% and then only we will get a very big push, the whole industry actually MDF will get a very big push.

Rahul Agarwal: Right got it and just one more question to Arun ji, so after this laminated expansion and all your MDF and particleboard is already complete so you will capitalize all your capex by March 2018 so can you help me with fiscal 2019 peak depreciation for the company as a whole like where we should we look at that number, right now it is about 55 Crores for the year right?

- Arun Julasaria:** I will have to calculate, you can call me personally.
- Rahul Agarwal:** All right. Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Varun Ghia from Equitree Capital Advisors. Please go ahead.
- Varun Ghia:** Sir, first of all I wanted to ask do you report the particleboard and MDF numbers together in the PPT in the presentation?
- Arun Julasaria:** No, we have done separately.
- Varun Ghia:** So MDF as you mentioned that you have already ramped up the capacity to 70% so when will the sales start kicking in?
- Arun Julasaria:** I mean to say in this quarter. We have not capitalized it, so whatever sales have come that has been reduced from preoperative expenditures. In fact we started to dispatch from September 29 only so whatever little bit sales that has been reduced on preoperative expenditure and we have not taken any topline growth from MDF products of it.
- Varun Ghia:** So it should be in Q3 we should see the numbers?
- Sajjan Bhajanka:** Yes, definitely.
- Varun Ghia:** And it will be basically B2B or through distributors majorly?
- Sajjan Bhajanka:** It is of majorly the B2B product.
- Varun Ghia:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari:** Sir, just to understand on this MDF what is our total capacity?
- Sajjan Bhajanka:** The country capacity or our capacity?
- Rajesh Kothari:** The Century Ply capacity?
- Sajjan Bhajanka:** Is 600 cubic meters per day. It is almost 200000 cubic meters a year.

Rajesh Kothari: So basically in this year, you know earlier you had a target of about 300 Crores kind of a revenue from this segment in the current year so that is in nine or you think it is little bit difficult?

Sajjan Bhajanka: Yes, because our commissioning were delayed, earlier we had a plan to commission I think I have said with you earlier that there were some agitation and something by the locals going on and some case was filed with the Green Tribunal so that case is also over. This is in our favour and the electricity got connected to the plant and we have commissioned the plant, it was delayed because of groundbreaking we did in April 2016 and we had very aggressive target that we shall complete the plant within one year and we are expecting to commission it by March, but due to the all agitation and other things we could complete, but still it was very aggressive because other people that could start production after three years of the initiation, but could start production first board after 16 months after the groundbreaking and so now this year may be the turnover from MDF would be somewhere between 150 Crores and 200 Crores.

Rajesh Kothari: Then next basically will be big ramp up?

Sajjan Bhajanka: Yes and then value additions would be there like we are already starting pre-laminating units, the machines have come and may be within this month November we shall commission that pre-laminating and that will add the value and we have some more provisions for value addition like floorings, like doors, MDF, so we have some provisions.

Rajesh Kothari: So what is the laminate revenue you are targeting next year?

Sajjan Bhajanka: I think next year it would be 400 Crores plus for MDF.

Rajesh Kothari: For MDF and for laminate?

Sajjan Bhajanka: For MDF it should be 400 Crores plus and value additions would be in addition to that so many be another will be 60 Crores.

Rajesh Kothari: So this value addition you are adding to which segment?

Sajjan Bhajanka: To MDF only.

Rajesh Kothari: So basically you are seeing close to about 425 Crores?

Sajjan Bhajanka: Yes, then MDF instead of that we shall sell pre laminates, may be 25% of that as pre-laminated MDF.

- Rajesh Kothari:** Sir basically current year looking at about 150 Crores to 200 Crores of MDF and in next year we are looking for 425 Crores total when I say MDF plus value addition MDF and what is the total revenue you are targeting next year?
- Keshav Bhajanka:** In laminate we are consistent and we are growing at total 20%. This year we will have a capacity constraint, in the month of January so considering that next year we should be growing at about 25%; however, also to first quarter this year if I provide anything shy of 20% you will be between 15% and 20% and you can expect a further growth of 15% to 20% on top of that next year.
- Rajesh Kothari:** The last question is on margin, MDF if I am not wrong you know last time when we are discussing or talking about very high margin because the cost is very low and margin can be as high as 30% so just wanted to clarify because in earlier question you answered that 20%, 25% you said it is assumption so can you little bit clarify on that?
- Keshav Bhajanka:** You see EBITDA depends on capacity utilization, so until you reach a high capacity utilization it will be very difficult to reach optimum EBITDA level. If you look at our particleboard you get in the last quarter we had 30% plus margins in particleboard. If you have 30% plus margins on particleboard because we have had 100% utilization. It is similar and considering that we will be operating at lower than 100% utilization may be 30% plus our EBITDA margin is slightly more.
- Rajesh Kothari:** Last question is overall outlook in terms of the actually on ground what is the demand outlook is it because of the significant slowdown in real estate where the entire industry is reporting very subdued growth, what is the actual demand outlook, I am not talking about wholesale, I am talking about retail level?
- Keshav Bhajanka:** In the retail level that we had the demand is not very strong; however, having said that I do not think that it is as poor as what we were foreseeing so the transition to the organized sector has not happened which has impacted us in plywood, but overall demand looks more or less consistent with what it was last year that is definitely low growth.
- Rajesh Kothari:** Great, thank you Sir, thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Achal Lohade from JM Financial Services. Please go ahead.

Achal Lohade: Thank you for the opportunity Sir. Sir, if you could talk a bit about the raw material of liability and the pricing with respect to plywood and how do you see the margins for full year FY2018 and FY2019?

Sajjan Bhajanka: There is an old saying blessing in disguise so our traditional source of raw material were dried out, like Myanmar and even in Laos so we had to look for some alternative and we could find a very good alternative which is a quality wise was also very good and that is what raw material for our faced veneer from Solomon Island so there were two varieties of timber we could discover and now we have concentrated on that and now logistic wise and other things is very long distance it takes very long time for the shipment and other things, but we have many units around India and more at the port cities. So we are now importing ship loads of the timber to Kolkata, Chennai and Kandla and from Kandla we also take the material to Karnal factory, so that is a good source and that is quality wise also very good, we have replaced our fresh requirement used to be from Keruing timber to this new timber and it is well received in the market and whether it is better than the earlier material and the timber cost is substantially lower. The earlier timbers we are importing are the cost of around \$600 per cubic meter. This is around \$350 per cubic meter, so we could achieve some saving in the raw material. Otherwise our position would have been difficult with drying and loss of Burma, but this is saving, so now in veneer also we are saving some money. In veneer say last year we lost money in veneer sale, so this year so far we earning some money in our veneer segment also.

Achal Lohade: How much of our timber requirement is local and import just a mix, broader mix for plywood?

Sajjan Bhajanka: Actually locally we do not buy timer, so we buy only core veneer from some North Indian units and we also import core from Vietnam, from some other countries, so our timber requirement from the domestic market is very less, but now we have some requirement for our particleboard plants and for our MDF plant, so that is 100% dependent on local source, but that is good for us, but it is little unfortunate for the farmers that the price has come down substantially of the plantation timber in North India also and in South India, so we are getting our raw material at almost Rs.3 a kg, which is lower than our projection.

Achal Lohade: Sorry, I did not get you; you are seeing the imported is at Rs.3 a kg?

Sajjan Bhajanka: Yes, just for the MDF plant and for particleboard plant it is around Rs.2.50 paisa raw materials and for MDF we are buying only one species and that is Eucalyptus, so we are making, we are not procuring, eucalyptus is better and we are getting substantial material,

so we are using only one species now and that average cost is Rs.3 a kg and South particleboard plant the average cost is Rs.2.50 per kg.

Achal Lohade: What is the input cost per kg for plywood plants and what is the domestic price. I am just curious to know given as you said the local timber prices have come down would it be more cheaper to source it locally than?

Sajjan Bhajanka: You know that make difference, there we need faced veneer, we need core veneer so the imported timber is solely for faced veneer requirement, so whatever timber we import and core is the byproduct of that, so whatever timber we import we try to take maximum face veneer out of that and keep good quality faced veneer for our own consumption and then the surplus faced veneer of good quality or the inferior quality we sell in the market at the approved state heads and then the ultimate left over that is core veneer that we use for our own consumption, so that timber, which we import it is costly timber, earlier it was very costly timber, Keruing costing almost \$600 per cubic meter, now it is \$350. I have given that there are two segments differently, one is the face, one is the core. Core we can store core finished material also, which comes in the finished condition less than \$200 per cubic meter from the indigenous source or in from imports also more or less similar price and wherein the raw material for the faced veneer comes at \$350 and after the wastage the price comes to \$600 plus, so that is the basic difference, so only we import timber for face and core with the domestic source also.

Moderator: Thank you. We will take the next question from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Thanks a lot for taking my question. My question was more pertaining to plywood segment we have seen pressure on plywood volumes and you have basically gave lot of reasons also behind it, just wanted to understand say plywood GST rate does not come down, what is the future outlook because the e-way bill is scheduled at around April, so what is the outlook for the segment going forward?

Sajjan Bhajanka: These two things are the major trigger for the profitability and for the market side, so if e-way bill does not come or does not come before April then we have to struggle with the low demand that is one thing and the second thing like the duty. The duty will also have its impact, because that is differentiating factor between organized and unorganized people. If the difference is big then it will have impact and the GST increased to 18% and definitely lot of migration would be there from unorganised to organised.

Sneha Talreja: But at least till the e-way bill comes the volumes may remain under pressure?

Sajjan Bhajanka: Both are the factors, if the duty is reduced then our position would improve substantially and e-way bill is also introduced after that it will be very good situation for the organised player because then the total level playing field would be there.

Sneha Talreja: Sir, also in the segment we have generally seen the margins being quite volatile because of the raw material pricing also what could be the margins on the segment and what can be the base margin assumption of the segment, because last quarter it was around 11%, this quarter we have again seen a jump to 13%, but there have been pretty volatile?

Sajjan Bhajanka: The reason I think I have explained already, because we had changed the specific for our face requirement so that there could save some money and even in laminate also the margins are better that is because of one GST coming down on laminate and the increase in the volumes and now we are running at 125% of the capacity, we are running around the clock, round all seven days, we are operating so that we are achieving almost 125% capacity in revenues in that way we are improving the margins.

Sneha Talreja: Sir, there is one more question from Logan.

Logan: Sir just one thing as you mentioned that industry definitely has not seen this kind of weakness and that what organized players are seeing because of this government ease or less surveillance, but that is also not getting reflected in our commercial veneer because you are the leading player of commercial veneer in the market and your volume in commercial veneer has declined by almost 30%, so I was just wondering that from where this unorganized market is actually buying commercial veneer or cautiously only we have been selling lower commercial veneer volumes?

Sajjan Bhajanka: See our cost of veneer commercial sale veneer has come down.

Sajjan Bhajanka: Our cost of veneer cost wise says veneer has come down equally with the cheaper veneer.

Logan: I was talking in the first half, the volume in first half in commercial veneer is down by 30%?

Sajjan Bhajanka: It is earlier we were sourcing veneer from two overseas units that is almost negligible now and then another importing timber and producing face veneer in India so that is the only source and that also it has reduced capacity and that also we will sell after meeting our own requirement. So people they have various sources now and the new source is the Okoume timber or Okoume veneer from Gabon. So many Indian manufactures they have gone to gone to Gabon, which is the African country near Congo and Cameroon there they have

developed one industrial estate where they provide readymade structure but we have not patronized those species in our company. We are not using that Okoume face because the color is different, it is a little lighter but in India because of the nonavailability of earlier Garjan or the Keruing and our capacities deliver this Solomon timber also veneer also very limited so people they are importing some veneer from China some other species and this is one of the major variant Okoume timber.

Logan: It is related to lower availability for us Sir that is why the volumes are down?

Sajjan Bhajanka: Yes, demand we can sell any quantity of veneer but availability matters.

Logan: Just a last thing on the related line only you did mentioned that last year we have make much money in veneer actually loss money but this year has been profitable; however, if I look at the gross profit for first half from plywood has been almost down 12% it means that there is a extreme pressure in plywood in terms of profitability though veneer has contributed profit in this first half but then also overall profitability down so this kind of margins drop in our core business that is plywood what is related to?

Sajjan Bhajanka: It is mainly due to the higher raw material cost in Assam because Guwahati it was contributing a lot may be having a big share in our total resources so there abruptly prices went up two quarters and now that plan is in play so price would come down, it had already come down and I think Keshav wants to attend to this question.

Keshav Bhajanka: So to add on that I think you are talking about 12% year-on-year if we look at quarter-on-quarter in plywood the margins are significantly better.

Logan: No I was referring in first half gross profit from plywood business is down by 12% so removing the quarterly volatility I am referring to first half itself where gross profit?

Keshav Bhajanka: The first half we have seen the effect of Assam in both the quarter and till first quarter the margin was substantially down, and post GST if you are part of the last earnings call we did not taken a price increase during the first quarter that played a hand, even during this quarter we had no intention of taking a price increase, due to the fact raw material cost have reduced they have been able to see higher margin going forward I am sure this trend should continue.

Logan: That is great, that answers my question. Thank you.

Moderator: Thank you. We take the next question from the line of Anand Bavani from Samiksha Capital. Please go ahead.

Anand Bavnnani: Sir there were some plans to focus on “Do it Yourself Furniture” market as well and if you can update us on any development on that front?

Sajjan Bhajanka: At the moment, there is a planning stage and we are waiting for we will move step-by-step so first thing we plan to stabilize MDF products and second thing we start pre-lamination the MDF, third thing could be the veneer laminates and then we are also planning to “Do it Yourself Furniture” and flooring also but it will be done gradually over a year.

Anand Bavnnani: Sir with respect to your MDF plant since we sort of plan for it in last quarter of FY2016 and in this second quarter of FY2018 how do you see that the variable apart from the wood, wood you mentioned it has fallen, how about the other variables like chemicals and labors in the Punjab region how are other input variables trending vis-à-vis our plants as we come closer to commissioning and operations?

Sajjan Bhajanka: As far the labour front is concerned particularly the MDF unfortunately it is not labour intensive, so in our plywood factory, we have close to 3000 workers but in our laminate division we have less than 300 workers whereas in volume also the production in MDF would be much higher and the value wise also it is although it is lower than plywood but in toto seeing the volume plus value it is higher than plywood from the two units. So in that way labour front may be Punjab or nowadays it is not the availability of labour. It is a state launch. So I think Bengal has notified the highest minimum wages in the country so that way Bengal, Bihar even Tamil Nadu is more or less similar thing all over India Punjab is no different and particleboard and MDF is not labour intensive.

Anand Bavnnani: Okay. Sir vis-à-vis other inputs like the Garjan and there were some discussions in the market that Punjab electricity rates would be coming down.

Sajjan Bhajanka: Yes, government has announced a policy that to industry they will give electricity at Rs.5 per units so but they have not yet implemented that. Last bill we got at Rs.6 so we have represented to the government that you should reduce to Rs.5 as promised by you, but we have duty exemption, so as per the Punjab policy the new units in Punjab will get duty exemption and we have another exemption whatever material we sell in Punjab on that the state GST there we will get 70% benefit.

Anand Bavnnani: Okay and Sir resin cost for MDF?

Sajjan Bhajanka: Resin cost in between due to the naphtha and methanol price increase but again it is back to the normal so this is almost at same level and it is around may be 10% resin contributes to

for 10% of cost and timber is contributing to 15% of cost and electricity. These are three major raw materials, resin, and electricity.

Anand Bavhani: Timber is 15% and electricity would be?

Sajjan Bhajanka: Maybe another 10%. We consume around 250 units per cubic meter.

Anand Bavhani: So three variables are down from a planning stage.

Sajjan Bhajanka: In future we may go for some bio-power plant like the husk based or timber based so in that case our cost would come down but we are not willing to start all these things together so we still add one power plant also for requirement later on based on the wood or the rice husk.

Anand Bavhani: Okay fine. Thank you Sir. That is it from me.

Moderator: Thank you. We take the next question from the line of Romil Jain from JM Financial. Please go ahead.

Romil Jain: Hello Sir good afternoon.

Romil Jain: Hello Sir good afternoon. Thanks for the opportunity. Sir just one question I had on this raw material the face veneer that you know we were earlier importing from Laos and Myanmar, I presume that was 100% of our requirement of core veneer, would be met today also from the Myanmar that we would be getting right?

Sajjan Bhajanka: But like the primer timber which is made for faced veneer there we get face and core both the thing and usually the face requirement in manufacturing plywood is less than 10% and 90% requirement is core so whatever we were importing say we always had surplus sales after meeting our requirement so that we used to sell in the market. Even if we are manufacturing Myanmar or in Laos then again we are importing the face and core both the things so we have never sold core from either domestic units or the Indian units where we imported the material and produce or in Laos and Myanmar so we were always bringing and consuming 100% core ourselves and face because the requirement is less so it was always surplus and that we used to sell in the market. Now the same is with the other timber the ratio of face and core is similar whatever Solomon timber we are importing we get 50% face and 50% core. So core we are using it and ourselves is a byproduct. So we cannot value it and face is value added as per the market, but it is now cheaper than the Keruing face, which we were using earlier.

Romil Jain: Correct. So from Solomon Island also can we increase, what we are getting right now in terms of faced veneer or core veneer just to replace what you know would not be getting from Laos or that is not possible largely?

Sajjan Bhajanka: We are increasing our production. We are importing more but there are some limitations like earlier Myanmar timber was there, the Laos and the others, Malaysia it is not available in plenty, Solomon is a very small country and very limited forest, and then they have many other species so this species we are confined to two species. These two species are very limited, production the availability is not unlimited, and many other people they have tried, they could not succeed, because small sits are not congenial for this long voyage and large things are not possible for all the people, but as we are leader in the market and we have uses in veneer and three are port based, so we are distributing this one shipload at the three ports.

Romil Jain: Sir just last question on the MDF plant that we have setup in Punjab. I just wanted to check we would not be having any issue on the raw material side over there?

Sajjan Bhajanka: Not at all. We have now for more than a month's raw material in factory and we had to stop or limit the purchases because of oversupply.

Romil Jain: That is like RM is not a problem over there?

Sajjan Bhajanka: Yes.

Romil Jain: How much portion of the total import that we would be doing from Laos and Myanmar?

Sajjan Bhajanka: Myanmar should be back to the normal. Once the new material start arriving in the factory many people, many Indian manufacturers they have withdrawn from the market. They have incurred loss, and they could not store timber, we are still having some timber for our own requirements, we have created some ponds there. That is a government land. We have stored timber under water. So that we are gradually using to meet our own requirement so almost 70% we have shifted to Solomon timber and 30% we are still using their traditional, Keruing and Garjan from Myanmar so that metal we are no more selling in the market. That is we are using for our own purpose, but our capacity is there. The moment sufficient timber is there and because there are lot of Indian units they have withdrawn so may be there would be less demand for that timber, so you will get sufficient timber for our own operations.

Romil Jain: So maybe next year that impact which we saw will not repeat?

- Sajjan Bhajanka:** Yes, there also we have started plywood factory. In Myanmar also we have started manufacturing plywood because the core we will be using there only.
- Romil Jain:** Thank you so much Sir. All the best.
- Moderator:** Thank you. We will take the next question from the line of Kaustubh Bubna from SKS Capital and Research. Please go ahead.
- Kaustubh Bubna:** Keshav, just wanted to know what are your realizations per cubic meter for your MDF? Could you give me a broad range.
- Keshav Bhajanka:** It is Rs.23500 per cubic meter as of now.
- Kaustubh Bubna:** Okay, let us say you offer 80% to 90% capacity utilizations, what profile do you see this MDF capacity happening?
- Keshav Bhajanka:** EBITDA margins would be anywhere between 25% and 30%.
- Kaustubh Bubna:** 25% to 30%?
- Keshav Bhajanka:** Yes.
- Kaustubh Bubna:** Is my understanding right that MDF is basically used in low pressure laminates?
- Keshav Bhajanka:** MDF is not used. It is used in low pressure laminates, but the quantum of MDF that is used in low pressure laminates is not very supportive. It is close to 20% of total production.
- Kaustubh Bubna:** Okay. What are the three new verticals you were saying that you are going to get into “Do it Yourself Furniture,” one was you said furniture, I missed that path.
- Keshav Bhajanka:** I could not get your question.
- Kaustubh Bubna:** What are the new verticals you are getting into “Do it Yourself Furniture?”
- Keshav Bhajanka:** First is MDF and we are not getting into “Do it Yourself Furniture’s” as of yet. We are considering whether we want to enter “Do it Yourself Furniture.” What we are doing is we are making a prelam unit in Hoshiyarpur and they will be able to do prelamination of MDF. Secondly, we are considering a doors manufacturing facility, which is based on MDF in Hoshiyarpur, our current plant and “Do it Yourself Furniture” is not on the horizon as of yet. We will keep on exploring that as an option.

- Kaustubh Bubna:** On the competition side, who else has raised MDF capacity apart from Greenply and Century? Is there anyone else?
- Keshav Bhajanka:** There is one more manufacturer called as Action Tesa, who is a significant player in MDF. Others I would say there are quite a few small business that are coming up, but they are at a far lower capacity say 200 cubic meters on that.
- Kaustubh Bubna:** That is great. Best of luck.
- Moderator:** Thank you. We will take the next question from the line of Vaibhav Shah from ICICI Direct. Please go ahead.
- Vaibhav Shah:** Sir just wanted to check about the MDF realization; you said it is going to be in the range of 23000 to 25000?
- Sajjan Bhajanka:** It will be in the range of 23500.
- Vaibhav Shah:** Sir, if we compare it with the Greenply their realization is close to 26000, so it would be close to 10% discount to the Greenply?
- Keshav Bhajanka:** No. Greenply's realization factor is in the value addition such as prelamination. As of now we have not started prelamination. If you compare it like for like plain MDF to plain MDF, I think our realization will be evolved.
- Vaibhav Shah:** But then with this kind of realization let us say even we start with this kind of thing, with a 82% to 85% capacity utilization, we would be maintaining margin of 25% to 30%?
- Keshav Bhajanka:** Yes. There are two things actually. Sorry to interrupt. There are two things; one is the prelam decorative MDF they are making and another one is the WWR, which is warm water resistant MDF. So we are yet to start both of them. The moment we start both of them our average price will go up actually.
- Sajjan Bhajanka:** The exterior grade we have not started it yet. So that we are planning very soon, exterior grade MDF that we are planning may be this November itself we shall start manufacturing. So that will increase the veneer.
- Vaibhav Shah:** Then Sir coming to the plywood business, there we were also looking out to take a price hike in Q3, so considering the challenging and all demand environment would we be continuing with the same price or go ahead with the price hike which we were thinking earlier?

Sajjan Bhajanka: In this kind of a price environment or the market environment is really, really tough to take any price increase. We have adjusted some prices, we have increased by say may be 2% or 1.5% or 2.5% that we have done from area to area already we have done that, but we are not looking at any big price hikes. This is again encouraging maybe a small, small here and there to compensate certain cost increases and all that, but we are not looking at big price ranges at the moment.

Keshav Bhajanka: Our decision to increase price hike in Q3 was based on the fact that the Hazelwood come into play from October 1. Now this brand is getting delayed. We need to review this decision and I do not think we will be taking any significant price increases prior to the April 1.

Vaibhav Shah: Sir, secondly in terms of the raw material in the last quarter, we were mentioning that Myanmar government would start the auction and we would be participating, would that have started or how us the scenario there?

Sajjan Bhajanka: This process is going on in Myanmar and every month they are conducting auctions. They are selling the materials, but it is the material, which is lying with them for the last two years. It is the old material and sometimes if a good lot comes we are buying in the auction also. It enables a good quality. This is just to run the factory. We are not expecting any profit or anything in the yield at the old material so we are expecting from February or March the new cutting materials would start coming to their timber yards, and Myanmar timber enterprise that is the sole government agency, which is doing the auction and conducting and maintaining the timber business. The fresh material auction would start either in February or March.

Vaibhav Shah: Sir, how do we expect the pricing environment for the timber there?

Sajjan Bhajanka: Because in India, also some diversion in the US, now they have already diverted to some other veneers like Gaboon veneer, which we are giving from Solomon Island and then many units have closed down in Myanmar which they could not sustain. I think there would be less pressure or demand on the fresh timber, so price would be reasonable.

Vaibhav Shah: Sir thirdly on the laminate business our export realization has come down significant in this quarter, Sir could you please throw some light on that?

Keshav Bhajanka: See there are two factors. Firstly we have also started taking orders of low price laminates, which earlier we were not doing because our new capacities are going to come from January. And exports are not a one-day supply chain. We need to build in those markets in

advance. As such we are taking orders for some certain markets such as from Thailand, where we are selling our lower price laminates also and this is something that we are refraining to bringing earlier, but considering our need to increase capacity and the fact that the capacity is coming into play, we have started taking such orders. Secondly, the dollar has come down from last year and I think that has impacted by about 3% to 3.5%.

Vaibhav Shah: Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen we will take the last question. We will take the question from the line of Rajesh Kothari from Alfa-Accurate Advisors. Please go ahead.

Rajesh Kothari: Sir just to continue from that last question, if I look at your EBITDA margin in plywood business for the last three years it has been around 17% and in first half it has reduced to 13.4 with second quarter margins of 14%. So what do you think from here on next year all of a sudden there are two scenarios if GST does not get reduced to 18%, that is the scenario one which is the current scenario and second scenario of course if the GST comes down to 18%. So let us assume if the GST does not come down then what kind of margins you would like to give for next year for plywoods sector?

Sajjan Bhajanka: So far we are struggling to maintain the margins by this way or that way. So we shall try to keep the margins high. We shall try to keep costs low. We shall struggle, but let us see in all probabilities if GST rate does not come down there will be price hike, and then thereby we shall improve the margins and Myanmar is a certainty is there.

Rajesh Kothari: That Myanmar contribution will improve margin by how many BPS?

Sajjan Bhajanka: That will reduce our face veneer cost and core cost and Myanmar we have sufficient capacity, so Myanmar that can meet our requirement totally and then 50% surplus will also be there, which we can sell in the market. These are subjective things. We always try to reduce costs, improve the margins and there are challenges in between so we have to overcome that like this discovery of Solomon and standardizing this, this has again reduced our costs, so otherwise earlier our margins were constant, but now are back to almost normal.

Rajesh Kothari: Basically in the first half if I look at your volume growth is 4.5 in plywood business and realization is -3.5, so it is more because of the product mix, am I right?

Sajjan Bhajanka: Yes. To some extent and now like some costly products, architects we have shifted to Laos because in Laos this timber the premium timber is very cheap. In India it is not available at



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any price and Laos because there is no export the timber price in Laos for the domestic consumption has come down substantially. So that way making plywood in Laos would be cost effective although Laos infrastructure is quite big it was capable of producing lot of veneer. We had six units and plywood we had converted only one unit they have converted to plywood. So there we have already created a capacity of say around 30000 square meter per day. So that will take care of some of the costly products, which were made of Keruing, the Garjan timber. Ultimately it will be the same whatever comes from there or here and overall it will come to our common kitty.

Rajesh Kothari: Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I would now hand the conference over to Mr. Amit Purohit from Emkay Global for their closing comments.

Amit Purohit: I would like to thank the management once again. Thank you all for being on the call.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Emkay Global Financial Securities that concludes this conference. Thank you for joining us. You may now disconnect you lines.