



“Century Plyboards (India) Limited
Q3 FY2021 Earnings Conference Call”

February 10, 2021



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Moderator: Ladies and gentlemen, good day, and welcome to Century Plyboards (India) Limited Q3 FY2021 Results Conference Call hosted by Asian Market Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Karan Bhatelia from Asian Market Securities. Thank you, and over to you, Sir!

Karan Bhatelia: Thank you, Ayesha. A very warm afternoon, ladies and gentlemen. We welcome you all to the Century Plyboards (India) Limited 3Q FY2021 Earnings Con Call hosted by Asian Market Securities. From the management side, we have Mr. Sanjay Agarwal, Managing Director and CEO; Mr. Keshav Bhajanka, Executive Director; Ms. Nikita Bansal, Executive Director; and Abhishek Rathi, Deputy General Manager I would request Sanjay Sir to give his opening remarks.

Sanjay Agarwal: Good afternoon, friends. I am Sanjay Agarwal, MD and CEO of the company. Along with Mr. Keshav Bhajanka, Executive Director; Ms. Nikita Bansal, Executive Director; Abhishek Rathi, DGM, Investor Relations, we all had joined together in welcoming you to the third quarter FY2021 results call of Century Plyboards (India) Limited.

Clearly, it is seen that Indian economy is on right track and growth path post pandemic, a V-shaped recovery. With next year's budget announced by the government giving further boost to the economy, both infrastructure and real estate sector will see benefits of budget, resulting in growth of our company, being directly linked to the sector. Overall, there was a very healthy growth, both in topline and margins across all segments.

I feel proud in announcing that our company has done ever highest in the month of December, and it will continue to perform even better. This quarter was highest in terms of turnover, highest in terms of margins and profit with practically 0 debt towards quarter end. Financially, all ratios improved considerably and working capital cycle reduced to 51 days again, the best in the history of CenturyPly.

As I communicated in the last quarter call that I am happy to report degrowth on positive side as plywood has degrown lesser compared to other products in the Panel segment. This quarter, plywood has shown considerable improvement with alone plywood volumes jumping up by 17% year-on-year and 37% quarter-on-quarter and Panel segment as a whole grew 11% year-on-year and 33% quarter-on-quarter, which shows sign of growth in our largest segment.



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I am happy to announce the company has taken decision on expansion of Hoshiarpur MDF facility by adding another line with additional capacity of 400 cubic meters per day and involving a capex of around 200 Crores. The sale will take less than a year to commence commercial production. Apart from this, company is also considering additional MDF facility in different geographies. With these remarks, I hand over to Abhishek to take you through key financial figures, post which we are open to your queries. Thank you.

Abhishek Rathi:

Thank you, MD Sir. Good afternoon, ladies and gentlemen. First of all, I would like to mention customary disclaimer that this con call is here to discuss company's historical numbers and future outlook. In no way this should be construed as invitation to invest in the company. Results for the quarter along with detailed analysis is already mailed to you and also listed on stock exchanges and company website.

So just taking you through the macro our topline year-on-year has grown by 10% to 654.36 Crores against 595.42 Crores. EBITDA barring the exceptional item was at 18.8%. That was 123.03 Crores against 95.54 Crores in the similar quarter last year. Profit after tax was at 65.88 Crores against 19.09 Crores. All our segments performed exceptionally well with significant improvement in margin. As against debts, our treasury assets are more. So in practical terms, we are debt-free. The quarter under the review was exceptional in terms of working capital cycle which was reduced to 51 days and stock depleted due to higher demand. However, we expect the same to be in the range of 60 to 65 days in future. We continue to look at the future with optimism and better performance every quarter. With these words, I open this conference call for question and answers. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade:

Congratulations for the great earnings. My first question is with respect to this MDF. You have approved the Brownfield. Just wanted to get some more color in terms of the profitability because I remember earlier indication that the profitability could be little lower for this compared to a Greenfield somewhere else. So if you could touch upon that, what kind of margins can we see on the incremental capacity, Sir?

Keshav Bhajanka:

You see there are 2 aspects to new capacity or to the capacity augmentation that we have taken place. The first is in terms of operational overhead. The operational overhead for this capacity will be far lower, the prime reason being that it is at the same location. The second is raw material costs. One raw material cost, which is the cost of timber, is likely to be slightly higher by about 0.25 per kg or 0.30 per kg. On account of the same, even though we do not see a drop, but erring on the side of caution, we believe that the EBITDA for the new project will be 3% lower than the current EBITDA margin for the MDF plant.

Achal Lohade: Understood, and with respect to the Greenfield and others, if you could just give a thought process as to what time line, what kind of capacity would we look at? Will it be a switching capacity between particle board and MDF, and so on and so forth?

Keshav Bhajanka: We are aggressively working on the Greenfield project. We are focusing on the South at this point in time. I think the capacity, once we announce the same, once our decision is firmed up, which is likely to take place in the next few months itself, within the space of 18 months, we should be operational with the capacity. This is not going to be a fungible capacity. It is going to be a dedicated MDF plant of 700-plus cubic meters.

Achal Lohade: Understood and just 1 more question. In terms of this ply growth, in the entire, actually, quarter growth for all segments together how much is the extent of pent-up demand do you think? What is the momentum in terms of the new projects or new work which is being initiated by the customer or the channel partners, if you could talk about that?

Nikita Bansal: Actually, definitely, there is a pent-up demand that we are serving, but I think we are also probably capturing some sort of market share also because, I think, ViroKill had an effect, the PBC that we had during Q2 and Q3 as well. We have seen more sales happening than regular market. So I think there is some sort of movement towards our brand. Other than this, new projects are definitely starting. I think there was a bit of start in Q3, but I think it is going to pick up from Q4 more. Given this new budget, etc., I think there is a lot of focus on infrastructure and real estate, etc. So I think going forward, we are expecting that this new project will grow.

Achal Lohade: That is very helpful. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.

Sneha Talreja: Congratulations on great set of numbers, Sir. Just a couple of questions from my end. Plywood segment, I mean, an extension to the previous question, it has seen a phenomenal growth. Since you highlighted the growth has only started coming back, what is your outlook now over the next 2 to 3 years for specifically for Plywood segment in case you can highlight that?

Keshav Bhajanka: So you see, I think this is just the start. Having said that, I do not want to be overly bullish on the same we will definitely be delivering on double-digit plus growth for the foreseeable future. Having said that, there are a lot of initiatives that we have done that is now beginning to come to fruition. So initiatives such as the change in the go-to-market have

now helped us, and I think that this is going to be a continuous boost to our growth going forward.

Sneha Talreja: Sir, can we easily expect double-digit like 15% to 20% sort of volume growth continuing, given that all the structural changes that you have been making in the channel and this retail-based scheme is working well for you now?

Keshav Bhajanka: So, yes, again, we are very bullish on the future, but as I said before, we are committing double-digit plus growth, but definitely, the aspiration would be to do higher numbers.

Sneha Talreja: Sure, Sir. My second question is regarding laminates. We have not seen much of the volume growth since you had highlighted there are troubles with the container availability issues in the export market. Despite that, we have seen a phenomenal margin improvement. What are the reasons for the same? And are these margins sustainable or is there any one-off related to lower raw material cost benefit of something that we got during the quarter?

Keshav Bhajanka: I think, yes, the margins are slightly on the higher side, but definitely, 17% to 18% margins in laminates looks sustainable now, and there have been a few fundamental changes that we have done with regard to our package structure, with regards to our discounting structure and with regards to our budget that have helped us. Alongside this, there have been cost-cutting initiatives that we have taken aggressively over the course of the lockdown. I think all of these have contributed to the margin expansion. Yes, there were certain undercurrent raw material price that we got in this quarter, was perhaps amongst the lowest that we have had in the past 2, 2.5 years. So I do believe that there might be a slight correction, but we will definitely be looking at a 17% to 18% EBITDA margin in laminates going forward.

Sneha Talreja: That was helpful. Sir, last question, which is a clarification to something that you pointed out in the previous question what is the margin that you are looking at for the new plant for the MDF division, you said?

Keshav Bhajanka: You see the difference between the existing capacity and the new capacity in MDF, like I said, is twofold. One is lower operational costs because it is in the same infrastructure of the current capacity. The second is the change in raw material prices. As compared to the current price of wood, we are looking at a 0.25 to 0.30 per increase in the cost of wood per kg. So I would estimate that whatever MDF margins we are earning currently, because even these have been volatile today at 25% plus, the margin from the new plant will be about 3% lower.

Sneha Talreja: Which is your Greenfield plant or this applies even to the Brownfield expansion that you are doing?

- Keshav Bhajanka:** We are talking about the Brownfield expansion right now in Hoshiarpur.
- Sneha Talreja:** Thanks a lot Keshav I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.
- Karan Bhatelia:** Sir, just to focusing on the plywood, if I adjust the exceptional items, the margins has come in at a good 15% plus during the quarter. So what could be the reasons attributed? And what sustainable margins are we looking forward?
- Sanjay Agarwal:** Okay. So you see, for us, Plywood is a very large segment, and we had certain costs which are actually fixed. So because of the volume gain, it is a bit but natural that the extra gain, extra profit you see, extra EBITDA you see is only because of that extra volume. If we can sustain the volumes, I hope we will be able to sustain the profitability or the EBITDA also, but I also think that because of those 2 months which were 0 practically, and if I divide that volume into next, so it makes it that we should get a good 8 months where actually these 2 months can be divided actually. So I believe that next few months, at least, yes, we should be able to maintain this EBITDA, and after that, it should go down to the original one. That is what I believe. Yes, but the volumes are going to go up, and if we can maintain the volumes up, then this EBITDA will actually stay. There are no 2 things about it, and we have taken too many, you can say, efforts in the market, whether it is go-to-market or whether it is advertising, into our capacities also, we are gearing up all our capacities. Presently, our plants are unable to meet the demand we have actually. So we are very bullish on the demand right now for at least, I can say, next 7 to 8 months, yes, absolutely, we are very positive.
- Karan Bhatelia:** Thank you Sir. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss Financial Services. Please go ahead.
- Praveen Sahay:** Very congratulations on a very strong set of numbers. The first question, Sir, related to your Plywood and there is some slight deterioration in the realization on overall Plywood segment. So is that of due for product mix changes or something else?
- Sanjay Agarwal:** It os a product mix change, actually, because the Prime plywood growth is there, but the growth in the Sainik plywood, etc., is much more and that is why the overall realization, you will see a little downtrend on a per NA basis if you see or per square meter basis if you see. That is actually the fact and which is, actually will keep on happening in future also.

- Praveen Sahay:** So any contribution of economic segment over this business?
- Sanjay Agarwal:** I could not understand you.
- Praveen Sahay:** So the high, premium-end plywood and the economy...
- Sanjay Agarwal:** Yes. That is what I told. PVC, our main item is the premium item, which is we call it essentially Prime and that has also grown actually in this quarter, but the growth of the economy segment is much higher. That is why per square meter we will be adjusting a little lesser.
- Praveen Sahay:** Can you quantify that contribution of economy segment, Plywood?
- Sanjay Agarwal:** Nikita, can you?
- Nikita Bansal:** Yes. So in terms of value, it is around 28%.
- Praveen Sahay:** Okay. Okay. The next question related to the Laminate. As, Sir, you had highlighted that 17%, 18% of margin going to be a normal, so this indication is after considering some inflation in the raw material prices?
- Keshav Bhajanka:** Yes, definitely. We have already taken a price increase of close to 7% in Laminate, and this is to account for the raw material price changes, and if raw material cost change further, our prices will change further.
- Praveen Sahay:** Okay. Okay. Great, and Sir, one more thing about your statement you had made in the presentation that your strategy, one of the new strategy you have started to monitor and help sales team that is OLJ to ODJ. Can you more elaborate on that? What exactly that you are going to a dealer and giving an order to them?
- Keshav Bhajanka:** Unfortunately, this is something that we have been working on for quite some time, and until we drive it to full completion, I do not think it will be right to share further detail, but we will definitely keep you updated.
- Praveen Sahay:** Any number or quantify the contribution of ViroKill right now in the business?
- Keshav Bhajanka:** ViroKill is added product characteristic. ViroKill is available in 100% of Century Club Prime and 100% of Century Laminate. It is not actually a separate product category. It is an attribute. As such to quantify, it becomes very difficult.

Praveen Sahay: As you are going for expansion in the MDF, so do we expect the debt level to go up from here?

Keshav Bhajanka: I think our free cash flow generation is quite strong. So I do not expect that to spike much going forward. There can be a slight change in the timing of cash flow versus cash generation, but I do not think going forward, there is going to be any substantial debt on the books.

Praveen Sahay: And lastly, Sir, on the working capital because you had managed very well and from normal level now it has reduced significantly. As the business is opening across the vertical, your major 3 verticals are giving a very good growth now. So this 50 days of working capital is expected to stay over here or expected to increase?

Keshav Bhajanka: No, it is going to increase. You see this quarter, the demand was exceptional. It was far beyond what we had projected. If you remember from our last call, we had said that we would hope the demand remains or rather returns to normal, but in this quarter, it has moved far beyond normal. So I think that this 50-day working capital cycle is an exception, it is an aberration because stock got depleted quite rapidly. Going forward, I think long-term; we will be looking at a 60 to 65-day working capital cycle.

Praveen Sahay: Thank you for taking my question. All the best Sir.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Congratulations on very good set of numbers. Sir just wanted to understand on your particle board expansion. So has it been postponed or are you going ahead with the same?

Sanjay Agarwal: We are not going ahead with any particle board expansion at the moment, but what we have done particle board compensated with some more machinery so that from our existing capacity of 180 cubic meters per day to we are growing up to 250 cubic meters. That has already been now installed, and we should see the result in the coming quarter.

Pranav Mehta: Okay. Sir, my next question was related to your appointment of BCG. So how is that going to impact your strategic thinking going forward?

Sanjay Agarwal: Right now, BCG has been appointed only for cost control. So it is not impacting any of our strategies at the moment.

Pranav Mehta: Okay. Right, and Sir, you said you have taken price hike in Laminate. So for other segments, as well, have you taken any price hike because raw material inflation has been a problem?

Sanjay Agarwal: Yes. We have taken a price rise of 2% in the whole Panel division, and we have taken about 10% price rise in the MDF divisions.

Pranav Mehta: Sir in Laminate...

Sanjay Agarwal: About 8% to 10% in the particle board division also. Yes.

Pranav Mehta: Sir, in laminates, are you seeing more traction in exports or domestic is picking up better for you?

Keshav Bhajanka: The exports during the initial phase of the lockdown was doing extremely well compared to domestic, but now, domestic demand has recovered as well. So I would say that exports are going to continue on a growth trajectory, as will domestic.

Pranav Mehta: Okay, and Sir, my last question is on the competitive intensity. So how are you seeing things on both the Plywood side as well as Laminate side from the unorganized side?

Keshav Bhajanka: We see a lot of times, people come up with this notion that there is going to be a radical change in the business because of lockdown or because of other factors and the unorganized sector will die out. I think once bitten twice shy. So what we have seen after demonetization, after GST, after the rollout of E-Way Bill and now after lockdown is the ingenuity of the Indian entrepreneurs cannot be challenged. So the unorganized sector has revived. I think, yes, we have taken some market share away because of the innovation that we have done, but the destruction in the unorganized sector has not been substantial in any which way.

Pranav Mehta: Okay, and Sir, just 1 last question. On this, Myanmar, will you see any problem on the face veneer supply because of that political situation that has developed in Myanmar?

Keshav Bhajanka: No, our factory is still operational.

Sanjay Agarwal: Factory is operational and we have started our new factory in Gabon also for face veneer. So if in case there is a problem, but I do not think there will be any problem as far as Myanmar is concerned because even earlier there was this military regime and now also, again, they have military regime. So I do not think it is going to make much of a difference, and this new factory in Gabon is going to suffice for whatever shortage we had and we were buying from outside. So now we will not have to buy some outside.

- Pranav Mehta:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah:** Congratulations, Sir, for a very good set of numbers. Sir, on the MDF side, our margins have now moved on to almost 27%. Now with the kind of price hikes the industry has seen and as Century has also taken a price increase of 10%, do you think there is further scope for margin expansion to come in?
- Sanjay Agarwal:** Nehal, I think you are much more expert on the industry than us because you are studying all the manufacturers across the country now, but yes, what you are saying is true. The margins should improve in MDF in the coming time, and should improve quite well actually for some time.
- Nehal Shah:** Right. Sir, if we go back to the last up cycle in MDF, margins actually went up to almost 30%, 32% kind of levels. At that point in time, obviously, green panel was there. Is the current situation good enough to see margins moving there or there are chances of excess capacity coming in probably, say, 1 year, 1.5 years later and margins are likely to again move downwards.
- Sanjay Agarwal:** See, there is only one plant which is going to start in South, which is 600 cubic meter per day. At the present, demand cycle and our plants which we have announced today will be coming after 1 year. So, and the kind of growth it has, so I do not think that at least for a year or so, this betting's will stay like this only. That is what we guess, and whether it should be stay for 2 years because any other guy planning the new units will not be able to start production less than 24 months, buying the land and getting the machinery and putting it into, huge. So I think for 2 years, products should have a good horizon.
- Nehal Shah:** Great, and Sir, where is the demand for MDF coming in? Is it more from the OEM segment which is what we are hearing or is it from the renovation retail demand?
- Sanjay Agarwal:** See, this is the main thing, actually. What you have touched is a very, very important thing. You see in India, till some time back, it was only the OEM, and today also, I can say more than 85% is OEMs, but plywood shops have started keeping MDF. If supposed yesterday if 100 pieces of plywood were being used, today maybe 90 pieces of plywood are being used and maybe 10 pieces of MDF is being used. So it is slowly making inroads, and then there is a product which we call premium MDF, which is actually that is really catching the fancy of people, and for the first time in last 20 years, I have got calls from dealers who were

requesting me to intervene so that they can get distributorship or dealership of that product. So this is a thing which we have actually forgotten in last 15, 20 years.

- Nehal Shah:** Sir, this virtually completes with the Marine Ply?
- Sanjay Agarwal:** Will be the Marine Ply, yes, with the Marine Ply, yes, but maybe not the Marine Ply of Century Plywood because Marine Ply of Century Plywood is very expensive. So it actually competes with the second grade Marine Plywood, actually.
- Nehal Shah:** Sure, tier 2 Marine Ply.
- Sanjay Agarwal:** Yes.
- Nehal Shah:** Sure, and Sir, as far as metros are concerned, have they recovered back to their full potential or there is still some way to go in starting this quarter?
- Nikita Bansal:** Actually, all metros have recovered, and our last metro we covered was Bombay and now Bombay is in growth. So I would say that the whole India is performing well for us.
- Nehal Shah:** Great, and Sir, last thing, any color on the CBD or the antidumping duty on the thin MDF? Anything is we hearing from the government side?
- Sanjay Agarwal:** Nothing till now.
- Nehal Shah:** Thank you and Sir all the best.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** Congrats on a very good set of numbers. Sir, couple of clarifications, sorry, if this is repetitive. I believe the reason as to why the plywood margin Y-o-Y is down is because of Sainik segment doing well. Is that right to assume?
- Sanjay Agarwal:** No, no, it is not down. You may be saying per capita per square meter if you are saying is the different thing. Per square meter realization may be down, but then total it is really, really up.
- Keshav Bhajanka:** Yes, I am a little confused because year-on-year, the margins are up. It is quarter-on-quarter 15.1% EBITDA versus 13.1% EBITDA in September and 15.1% versus 12.4% EBITDA in December.



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Prashant Kutty: Okay. This you are referring to the Plywood. I was just referring to the entire Plywood and Allied Product segment.

Keshav Bhajanka: I am talking about the entire Plywood and Allied Product segment. There is an exceptional item. So I think that if you are considering, I am not sure.

Prashant Kutty: My apologies.

Sanjay Agarwal: There is an exceptional item actually. There was some kind of a duty release we had in Guwahati unit, which has been now, we have lost the case in Supreme Court. So certain money has to be paid back to the government. So that is after many years, we have to refund it. So that may be really showing some data little difference here. Otherwise, for this quarter, the percentage has improved, the total has improved.

Prashant Kutty: Sorry, just one bit on the particle expanding within the plywood part. Well, I wanted to ask you, in terms of the premium segment, that was probably even pre-COVID were maybe struggling a bit. Have we seen revival across the board when you are talking as far as the Plywood segment is concerned, has the premium segment also kind of come back to growth rate? And how confident are we on that part of the business, if you could just throw some light on that?

Nikita Bansal: Yes. So actually, the premium segment has actually grown for us, but like MD said, the Sainik segment has grown more than the premium segment. That is because the market is larger in the Sainik segment. In the economy segment, the market is larger, and it is a new product that we have come up with in the last 2.5 years. So definitely, growth is there. I think there will come a point where we will start selling as much economy brand as much as we do of the premium brand. So, but that does not mean that the premium brand is not growing. Premium brand is growing in double digits.

Prashant Kutty: Okay. It is growing in double digits?

Nikita Bansal: Yes.

Prashant Kutty: Okay, and is this one of the reasons as to why we are probably more confident that we probably can actually now go ahead and to double-digit growth rate in plywood because the premium has kind of come back to growth?

Nikita Bansal: Yes, very much. That is our reason for confidence, and we are also actually doing too many things that we feel that are going to need to grow. So there are too many places that we are trying to plug-in the gaps, and this is the year for change. So we are not leaving any stone unturned to actually deliver that.

Keshav Bhajanka: I would like to add one more point. See, the per capita consumption of wood panel products in India is still one-tenth that of China. So we have a long way to go across all product categories.

Prashant Kutty: Sure. Just one more clarification I would actually ask on the plywood part which is there. You said premium is growing in double digits. I also want to ask you, have you also right sized our overall incentive structures and all as far as plywood is concerned because I just want to ask you that is there any element of pent-up demand over here which we have to take into consideration or is it just because you feel this is more structural in nature?

Sanjay Agarwal: See, for 2 months, there was no sale. Even if I consider that as a pent-up demand, if that is also to be serviced by us, it should take us more than 8 to 9 months to service that demand itself, and this demand has come up, you can say, from November onwards actually. So November, December, when we go up to, actually, even if we say pent-up demand, up to June, I think, the pent-up demand will be there, and I believe that from real estate sector, what I hear from my clients and from the market, whatever I read on magazines and newspapers, the real estate sector, the finished goods sale is really, really, very good, especially in all the metros what I see. So if that is good, then we are not far behind. You see, for us, when you look at plywood, it is one product which actually does not depend on the construction process. It depends on handover. Once somebody buys a house and starts making into a home that is when plywood demand starts. So I think considering the way in which demand has taken off with regards to people taking possession and starting of doing houses, it bodes very well for us going forward.

Prashant Kutty: Great. One last bit from my end, on the MDF part, so the capacity which you are adding up the existing Brownfield, that should be up and running by when? What is the target on your mind?

Keshav Bhajanka: By Q4 next year.

Prashant Kutty: Q4?

Sanjay Agarwal: 12 months from now.

Prashant Kutty: 12 months from now. Okay, and in regard to the South facility that you are talking about, that you said is still on. So that will actually now come up much later, right, or is that you will actually start action over there as well?

Sanjay Agarwal: 24 months from now.

Prashant Kutty: Thank you very much Sir and all the very best.

Moderator: Thank you. The next question is from the line of Girish Choudhary from Spark Capital Advisors Private Limited. Please go ahead.

Girish Choudhary: I must say great all-round performance during the quarter. Just following up on the previous participant question on the commissioning of the capacity, which is less than a year. So just to get a sense of how confident are you in achieving this time line? Have you placed any orders for the equipment? And also if you can give some details on the make of it?

Keshav Bhajanka: We have already placed the order for 2 of the machinery, and for the third, should be placed within the course of the next 7 to 8 days. I think we are 99% confident that we will get the plant operational by next year. We have already commissioned India's fastest MDF plant, which was a Greenfield project, in 16 months. So I think a Brownfield in 12 months, when we have the change, should not be very difficult.

Girish Choudhary: My next question is on the Gabon unit which was recently commissioned. Again, here can you throw some light on how this plant will benefit the overall sourcing requirements for the company and also the cost relative to the current sourcing norms.

Keshav Bhajanka: You see the main objective of the Gabon plant is raw material security. Today, in terms of Okoume, the challenge that we see in getting the quality of Okoume that Century Plywood requires becomes a big issue because we only buy the top brass of Okoume, the category A, or A-grade or B-grade, as we call it, and the lower grades are not very useful to us because it does not go well our plywood. So the Gabon plant will help us to actually source the right raw material that is required for our products, and that will be the biggest advantage. Yes, there will be a slight reduction in cost because we will be manufacturing there. Quantifying that right now will be a little difficult.

Girish Choudhary: Lastly, on the proposal to acquire the Century Infotech, I just wanted to get some sense here in terms of any reason for acquiring the stake? And who are the remaining shareholders in the company?

Abhishek Rathi: So the Century Infotech was our subsidiary. I mean, we were holding 60.06% of the shares and remaining 39.94% was with our partners. So we are making it as a wholly-owned subsidiary. These companies are mainly developed for interior designing through e-platforms. So now we are making it our own subsidiary, 100%.

Girish Choudhary: Any outflow which you can share?

Abhishek Rathi: Outflow, it will be insignificant. I will give you the number maybe later.

Girish Choudhary: Thank you.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Yes. Most of my questions have been answered. I just have a query on MDF. So you talked about us taking a 8% to 10% price increase, and you also talked about demand being strong. So I am just trying to understand a bit more in terms of when we are seeing the visibility being so strong, where is this actually coming from? So if you can just kind of give some color, and...

Sanjay Agarwal: I could not understand the question.

Viraj Kacharia: Sir, my question is, given the kind of price increase it is, so is it easily absorbed in the market? And second is on the demand part, what are we seeing in terms of demand sustainability?

Sanjay Agarwal: See basically, you need to understand that the price increase whatever we have done has already been absorbed in the market, and as soon as we start, we will understand the markets because we are every day in touch with the market. So if it starts threatening or if there is less in demand, then we will know immediately and we will be able to act, but the present situation is not like that at all because the imports are totally stopped. Most of the imports were happening, say, from Vietnam or from China. So all these countries are now not exporting anywhere because their own demands are quite high actually, and the other problem, I hope you understand and you know, that shipping has become very costly across the world actually, and this is an item which was valued at about, say, \$200 or \$220 per cubic meter. On that, actually, \$20 was the freight, which has become now, say, \$50, \$60, \$70, \$80 freight is there now. So that is another reason that imports have been totally stopped. So I do not see any changes in coming at least 6 to 8 months or 1 year's time, at least. There are no chances of any imports, and the internal markets have been growing, and the capacity expansion, you also know in MDF, there has not been any capacity expansion in last more than, I could say, 1 year and 1.5 years. The only plant which is coming up in South is yet to be started, but I believe that even after that, it will really not matter much, but yes, we all will see the facts. By next quarter, we will know better.

Viraj Kacharia: Thank you very much.

Moderator: Thank you. The next question is from the line of Jiten Doshi from ENAM Asset Management. Please go ahead.

Jiten Doshi: Yes, many congratulations to you Sanjayji and entire team, and many congratulations to all of you for fantastic disclosures. Please keep up the good work. I think the mindset is more

important than the size of the company. So I rate your disclosures better than most of the large companies in India. I think very many congratulations to Keshav and all of the team members.

Sanjay Agarwal: Complete corporate governance.

Jiten Doshi: Right. So I think it is extraordinary. I think Keshav made one comment, sorry, Keshav made one comment, and he said that the unorganized sector never dies. Is there any empirical evidence to say that they will bounce back with the same vigor as they used to operate about a year ago?

Keshav Bhajanka: I think the lack of information in this sector is one deterrent, but what we have observed is that certain units have been under severe pressure and there have been shut down. This is evidenced by the number of companies that have approached us for takeovers, acquisitions, etc., etc., for us to take them over, but having said that, at this point in time, we still do not have any concrete idea.

Jiten Doshi: But, because when we speak to management across other industries, there is a definitive feeling that there is a lot of weakness in the unorganized or the small-scale sector, which is here to stay and probably the bigger getting bigger and they are gaining market share. Do we believe that we are at the cusp at CenturyPly?

Sanjay Agarwal: I will not say that, but there is one very basic fact I would like to tell you. Smaller guys, whenever the going is tough, at that time the price pressure is so high that they have to reduce their prices. Companies like CenturyPly or Greenply, we work on our brand. So even if the cost goes down, we do not reduce our prices. Even if the markets are bad, we do not reduce our prices, and we are able to increase our prices the moment our costs go up. So in the long term, I am saying, I cannot say a year or 2 year or 3 year in the benchmark it should be, but in the long term, survival for a small guy is practically impossible if he does not do adjustment, and I believe that Modi government is absolutely after the adjustment. Most of it has been done away with. Whatever is left will be done away within a year or 2.

Jiten Doshi: So Sanjay Ji, what would you estimate, in 3 or 4 years, how much percentage market share would the organized sector take versus the unorganized? If you just could sort of in guess and give us some...

Sanjay Agarwal: This question, we have been talking, I think, for quite some time actually, and my expectations have failed in this. So I would not like to make another picture in front of you, but would like to rather watch the movie passing by me. I would not like to make a comment here, actually.

Jiten Doshi: One last question, Sanjay Ji, what would be the next 2 years capex? Let us put 2022 and then FY2023 because it is a long-range planning that you are doing, and I think you are at the cusp of some huge growth. So what sort of capex are we looking at?

Keshav Bhajanka: Jiten bhai, we will be looking at about 600 Crore to 625 Crore capex in the MDF division, which is 2 new lines. One is the expansion of the Hoshiarpur plant. Second is the setting up of a stand-alone new entity in the South. Alongside is, there will be some capital additions in Plywood and Laminate, but that will be more towards balancing equipment. I think that will not be in excess of 50 Crores to maybe 70 Crores over the course of 2 years.

Jiten Doshi: Okay. So next 2 years, you will be doing about 700 Crores to 750 Crores at best case in terms of your capex?

Keshav Bhajanka: Yes.

Jiten Doshi: And that should all happen from internal accruals, hopefully?

Keshav Bhajanka: Yes.

Jiten Doshi: Keep up the good work. Congratulations, and I am always very happy to have association with a company like CenturyPly. Thank you so much.

Moderator: Thank you. The next question is from the line of V. Samala from Tata Asset Management. Please go ahead.

Venkat Samala: Congratulations on a very good set of numbers. My first question is with respect to particle board. Sir, what we are seeing is that from at least the OEM segment, we are seeing a fair share of good demand coming for the MDF. So why is then a divergence there between the performance of MDF and particle board?

Sanjay Agarwal: See, particle board was not getting imported into India at all, and a lot of MDF was getting imported on all the ports, whether Eastern, Western or Southern port, including even North India was also getting some material. So that is why you see more demand gearing up into MDF and not so much into particle board, but whatever little extra demand into particle board we are seeing that source that the overall the total market of these OEMs and the projected total is growing. Otherwise, that would not have come. So basically, this demand of particle board is showing me a very long-term gain. MDF, maybe because of the market and because of the import. Particle board is telling me, no, this demand is going to rise.

Venkat Samala: Right, right. So Sir, then, I mean, if I just look at the Y-o-Y growth between both the segments, so MDF is greater than 20% and particle board is low single digit. So then there seems to be a substantial...

Sanjay Agarwal: How will there be growth if I do not have the capacity?

Venkat Samala: Okay. Okay. So then you are running...

Sanjay Agarwal: So we do not have the capacity. What we have done, we have invested some money and we have increased the capacity by compensating some machinery. From 180 cubic meter, now we will be, from this quarter, which may not be whole of this quarter also actually, but we have gone up from 180 to 250 cubic meter per day. That is all, and we are not investing much into particle board because particle board, again, it is a very cheap product, and very many, many small manufacturers are coming up across the country. To keep competing with them will be a little difficult, and whereas in MDF, actually, you have to invest into hundreds of Crore where small-scale manufacturers will not be able to come in, you see. That is why we are building up our brands also into MDF now that our Century premium MDF is becoming a brand by itself, actually.

Venkat Samala: Right, right, right. Sure. Sure. So moving forward, also in terms of capital that you would be employing, particle board would be figuring lower in the pecking order, right, in that case?

Sanjay Agarwal: Right now, actually, it is not there at all. We are not investing anything more into particle board. We are investing only into MDF and plywood.

Venkat Samala: Right, right, and plywood, what would be the investment, Sir?

Sanjay Agarwal: And, of course, Laminate.

Venkat Samala: Sir, Plywood what would be the investment, I mean, that you will be planning in the next 2 years or so?

Sanjay Agarwal: Plywood in the next 2 years, just now, I think, Keshav spoke about it, about 50 Crores to 70 Crores in the total planning.

Venkat Samala: Okay, okay, okay. Right, right, and that will be largely maintenance capex only, I would assume?

Sanjay Agarwal: That would largely?

- Venkat Samala:** Maintenance capex and efficiency improvement?
- Sanjay Agarwal:** Not only maintenance capex. Actually, we will be compensating some machineries, and we will be increasing our capacity also depending upon the plant profitability. So we were actually having this discussion a few days back only, and of course, this has not been even formalized till now, but yes, this is what we are going to do. These are the machines we are going to buy, but that is what plan we have made.
- Venkat Samala:** Right. Sure, sure, and with respect to MDF, you just mentioned sometime back that you have taken a price hike of around 10%. Sir, what we gather is most of, from some of the competitors that they have taken price hike of 4% to 5% and then they have mentioned that, that is large enough to mitigate the impact of RM price increase. So then are we expecting this price hike to actually be margin accretive?
- Sanjay Agarwal:** You see, to my knowledge, very frankly, whenever we meet our buyers, we always say that our costs have gone up.
- Venkat Samala:** Right. Sure. Sure. I understand. Right, and 1 last question. So this expansion of 200-odd Crores of Brownfield in MDF, what is the peak revenue potential which could be expected from there?
- Sanjay Agarwal:** Close to 400 Crores.
- Venkat Samala:** 400 Crores. Okay. Okay.
- Sanjay Agarwal:** Close to 400 Crores.
- Venkat Samala:** Okay. So asset turns of close to 2?
- Sanjay Agarwal:** Yes.
- Venkat Samala:** And that would be meaningfully higher than what you would be getting generally, right?
- Sanjay Agarwal:** I did not get you.
- Venkat Samala:** Sir, generally, you would be getting asset turns of close to 1.1 or 1.2, right, on a Greenfield capacity?
- Sanjay Agarwal:** Yes.
- Venkat Samala:** So just because it is a Brownfield...

- Sanjay Agarwal:** Yes it will be higher on a Greenfield. Yes, definitely.
- Venkat Samala:** Thank you, thanks a lot. All the best for your future performance.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Sir, just a couple of questions. I am sorry, I joined in late, Sir. If it is repetitive, extremely sorry for that. The first one is that we are seeing a lot of demand for readymade furniture. That is what the thing is. So if you can just help us understand, is that also driving the overall MDF demand as per your market intelligence? And is exports of furniture also kind of picking up? If you can just help us understand these 2 things?
- Sanjay Agarwal:** Mr. Ghosh, very frankly, in India, we do not have much data, and all of us keep talking, and we have been talking for many years is only on the feel of the market. So yes, what you have said is absolutely true that readymade furniture is gaining ground, but not really, I must say not really. I would have expected it to go berserk actually totally because any young couple today coming into the existence, getting married, getting into a new flat, it would be buying only readymade furniture, but that is not happening. Most of the people still believe in getting their furniture done as per their design, and there is one thing I always say that why not? See people staying on the Fifth Avenue in America only get to make their wardrobes to their design because it is too expensive to design and make to their choice. In India, everybody can afford it. You can get your wardrobe made as per your design because contractors are available on your Nukkad. So why not? Why to go for readymade furniture? But then yes, there will be some who take readymade furniture. There will be some who will take from plywood, but yes, the demand is increasing. Number of OEMs are also increasing. I think there is a growth of more than 15% to 20% OEMs every year, and that is the demand growth, more than 20% demand growth we are seeing in MDF every year.
- Abhishek Ghosh:** So the whole shift of plywood to MDF, you are still seeing very gradual improvement. It is not a step jump kind of a thing. That is not happening?
- Sanjay Agarwal:** You see, last, if you see figures of China, which we believe are very true, in the last 9 years, the plywood has grown more than MDF. In India also, I expect, in European countries, yes, plywood is only 20% of the total final consumption, but in India, I do not see more than 40% of the total market to be more than 40% for MDF and Particle board, and the whole market is growing actually. So it is not that the plywood market will shrink or anything will happen to plywood market. No. The plywood market is also growing, the overall market is also growing and the MDF and readymade furniture market will also grow.

Abhishek Ghosh: Sir, just one more thing in terms of the dealer network expansion. So you have spoken about a lot of how you reached out to the demand and you have increased your overall...

Moderator: Sorry to interrupt. Mr. Ghosh, if you could speak a little louder, please?

Abhishek Ghosh: Is it better now?

Moderator: Yes.

Abhishek Ghosh: Yes. So where I was coming from, Sir, you have done a great job in trying to channelize your overall marketing team, the professionals who are there at the marketplace, but is there a drive for further increase or penetration of dealer network beyond maybe top cities where the dominance of unorganized would have been higher and this is the time to increase the penetration in those markets. Is that something that you are strategizing?

Nikita Bansal: Yes. Actually, the strategy for Sainik is to go to the 1 lakh population towns. So next year, again, we are taking a very big drive for channel expansion, and usually, we have seen that whenever we expand for Sainik, we get a growth in even our premium products because there is some sale of premium in those counters as well.

Abhishek Ghosh: And what is that channel number today and what would be the growth? If you can just help us understand that?

Nikita Bansal: We are planning to add another say, so we actually see channel and active channel to build this out on a quarterly basis. So we are expecting to add another 500 more channels compared to what we are today.

Abhishek Ghosh: Thank you so much for answering my questions and wish you all the best. Thanks.

Moderator: Thank you. The next question is from the line of Kunal Lakhan from CLSA. Please go ahead.

Kunal Lakhan: Congratulations on good set of numbers. Sir, in your earlier comments, you mentioned that you have seen inquiries from some of these unorganized players for acquisitions or that sort of thing. I just wanted to understand our strategy in the inorganic sense? Like how are we looking at these opportunities? Firstly, how big are these opportunities? And how are we looking at these opportunities?

Keshav Bhajanka: There are a lot of opportunities that are presently there in the market. Our first priority is how to augment our own capacity at the lowest possible capex. Because as you know, that is the lowest-hanging fruit, and that is the most profitable way to go about it. Post the same,

we are evaluating opportunities as and when they come, and if we find something that are really lucrative, we will get back to you on that.

Kunal Lakhan: Okay. So you are trying to say that the current opportunity that are there available in the market do not make any financial sense vis-à-vis putting our own capacity first?

Keshav Bhajanka: It is about our requirement versus what is being offered. Currently, we have good scope to augment our existing facility at a very low capex, just by installing some balancing equipment, and that is priority #1. Post that, we evaluate all acquisitions. At this point in time, none of the acquisition opportunities that we have seen have given us, or have been very lucrative.

Kunal Lakhan: Thanks so much.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Sir, congratulations on a fantastic set of numbers. My question was on the Greenfield capacities which we will be putting up for MDF. Will the return ratios, ROI and ROEs, on these new plants be on par with our current company level ROEs, Sir?

Keshav Bhajanka: Our ROE and ROC for the new plant will be very similar to the existing plant. It will be slightly lower because we believe the realization in the South is likely to be a little lower than that in the North. That should be offset by the lower raw material cost, but I believe ROC and ROE ratio will be very similar to the existing MDF capacity.

Vaibhav Kacholia: And the margins also, the 3% lower for the Brownfield, for the new Greenfield, they will be more or less on par with our current margin?

Keshav Bhajanka: The margin for the Greenfield are likely to be similar to the margins for the Brownfield.

Vaibhav Kacholia: Okay. So that is 3% lower than our current margins?

Keshav Bhajanka: Yes. That is a conservative number, but yes.

Vaibhav Kacholia: Right. I understand completely, and when we put the new plant, Keshav, so we will be putting like the cost maybe some 400 Crores plus working capital of another 100 Crores or something like that, right? So on that, we will be able to manage these, I think our current company level ROIs and ROEs are pretty high. So based on this 25% of margins, will we still be able to manage those kind of ROIs and ROEs?

- Keshav Bhajanka:** That is the objective.
- Vaibhav Kacholia:** Right. So does management have to do something to augment those ROIs and ROEs?
- Sanjay Agarwal:** Have not we found that in the present MDF plant?
- Vaibhav Kacholia:** Right. Okay. Got that, and my other question was on brand building. Like are we using, this ViroKill also goes into the MDF things as a brand?
- Keshav Bhajanka:** Yes, it does.
- Vaibhav Kacholia:** So MDF and the Century brand plywood. It does not go into Sainik?
- Keshav Bhajanka:** No, it does not go into Sainik. It goes into laminates, plywood, Century Club Prime and MDF.
- Vaibhav Kacholia:** Got it. Understood, and any plans to further augment our brand, like a lot of these homebuilding brands have you celebrities and stuff. So any such thought processes?
- Keshav Bhajanka:** We are a very small company. So we try to limit our expenses in whatever way possible. So we are going to definitely augment the brand in a very, very big way. It might not be virtual celebrity endorsements, but we have a lot of things in the pipeline, and hopefully, we will show you the results wise.
- Vaibhav Kacholia:** I think the management has done a fantastic job, and any more color we can give on brand building and what impact that can have on our operations going forward, Keshav?
- Keshav Bhajanka:** We are going to invest in brand very substantially over the course of the next year. Again, as you know, the MD is very strict on the percentages. So we will not go about the allocated percentage spend in terms of allocated to brand building.
- Vaibhav Kacholia:** That is 4%?
- Keshav Bhajanka:** Yes. We are coming up with a very strong campaign, and once we finalize, we will share those details with you.
- Sanjay Agarwal:** You seem to have studied it very well. You knew the percentage.
- Vaibhav Kacholia:** Yes. Sir, in fact, a lot of other brands in the homebuilding space have used this brand building and then they have been able to get higher pricing.

Sanjay Agarwal:

Vaibhav Kacholia: So we are also thinking on the same process, is it?

Sanjay Agarwal: I do not think we need to go for higher pricing, you see. Our EBITDA is good, and I do not think we need to go for higher pricing. What we need to do only is to expand our sales. Expand our market share, actually, I should say. When we can achieve that, that itself because the underlying costs, fixed costs in our companies like ours are quite high, and if we can get more market share, actually, the profitability will automatically increase by itself. I am sure Mr. Kacholia, you understood that very, very well.

Vaibhav Kacholia: Thank you so much Sir and my complements on fantastic operations.

Moderator: Thank you. The next question is from the line of Akshay Chheda from Canara Robeco. Please go ahead.

Akshay Chheda: Congratulations on your Brownfield expansion. Sir, I just wanted to understand the capacity utilization ramp-up that would happen on your Brownfield expansion. Like when we say that the peak revenue that we expect would be around 400 Crores, so by what period when we can expect to achieve the same from the day of starting the operations, say 1 year, 2 year or so?

Keshav Bhajanka: You see, we have already demonstrated the ability to ramp-up rapidly in the case of MDF. All I will say is that we will be achieving capacity utilization in the Brownfield far faster than we did in the Greenfield.

Akshay Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: Sir, how has January shaped up for us across categories? Because we believe till November, December, we were seeing high pent-up demand. So if you can throw some numbers on January?

Sanjay Agarwal: I do not even know whether I can speak about January. I do not even know that, actually.

Keshav Bhajanka: January was good. I think we can leave it at that.

Karan Bhatelia: That is it from my end.



Century Plyboards (India) Limited
February 10, 2021

Moderator: I would now like to hand the conference over to the management for closing comments.

Sanjay Agarwal: So friends, thank you so much for joining us on the call and taking your time out and listening to us. I am sure we all will see a different India, we all will see a different future for all of us in coming time. This Budget, whether we understand it or not, has changed a lot of things. BJP government from a 3% deficit has agreed to go to 6% deficit. So I am sure the future is going to be different, and we will meet again for the next quarter earnings. Thank you.

Moderator: Thank you. On behalf of Asian Market Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.