



“Century Plyboards India Limited
Q3 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Century Plyboards India Limited Q3 FY2020 Earnings Conference Call hosted by Asian Market Securities Private 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhatelia from Asian Market Securities Private Limited. Thank you, and over to you, Sir!

Karan Bhatelia: Thanks, Nirav. Good afternoon everyone. On behalf of Asian Markets, we welcome you all to the 3Q FY2020 Earnings Conference Call of Century Plyboards India Limited. We have with us today Mr. Sanjay Agarwal, Managing Director and CEO; Mr. Keshav Bhajanka, Executive Director; and Mr. Arun Julasaria, CFO, representing the company. I would request Mr. Sanjay Agarwal to take us through an overview of the quarterly numbers and then we can begin the question and answer session. Over to you Sir!

Sanjay Agarwal: Thank you all. Good afternoon friends. I am Sanjay Agarwal, MD and CEO of the company. I am joined by Keshav Bhajanka, our Executive Director; Nikita Bansal, Executive Director; and Mr. Arun Julasaria, CFO of the company. We all join together to welcome you to this conference call for our third quarter result.

I will start with a very different note today. As informed earlier, due to regulation changes by Laos government, our Laos facilities became unoperational, it is known to all of you although we are making all efforts to make it operational and viable again, we thought it is prudent to take impairment in current quarter. This impairment loss has adversely affected our standalone result by Rs.45.63 Crores.

As you all know the end-use of our almost all products is for furnishing, for doing interior of apartments and mostly new apartments. The situation of real estate is continuing to remain subdued. In such situation, we face double challenge of booking growth and maintaining profitability. In subdued market, booking growth and maintaining profitability go against each other. We have tried to balance between two. We are trying to maintain or improve our profitability with best possible growth. Barring impairment loss, as mentioned above or earlier, during the quarter under review, if we see our year-on-year performance, we had a low growth of about 3%. But the silver lining is our EBITDA margins improved from 13.4% to 16% as major part, financial year is now passed. For the whole financial year, we expect to achieve 5% to 6% topline growth and EBITDA margin of 16% against 13.5% in FY2019. Now I hand over to our CFO, Mr. Arun Julasaria to take you with macros for current quarter, post which we are open for question and answer session. Thank you.

Arun Julasaria: Good afternoon ladies and gentlemen. First of all, I would like to mention customary disclaimer that this concall is just to disclose 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 posted on Company's and stock exchange websites. So, I will not take much of your time to take you through and take you through only macros.

Comparing year-on-year results, our net revenue including other operating income for the quarter has increased by 3% from Rs.578.89 Crores to Rs.595.42 Crores. Blended EBITDA margins were lower at 8.4% due to impairment loss taken. Barring impairment loss for Laos assets, our EBITDA margins for the quarter are significantly high at 16% compared to 13.4% in last corresponding quarter. Despite taking impairment loss of about Rs.46 Crores, our profit before tax for the whole year will be higher than FY2019.

For the full 9 months despite foreign exchange fluctuations and liquidity prices in the market, we have optimally managed our treasury and working capital cycle. We are continuously reducing our debt from operational cash flow. We already prepaid our term loans taken for recently setup MDF plant. Our total debt level excluding current maturities, which was Rs.468 Crores in the beginning of the year is likely to go down to Rs.200 Crores by year end. Despite making capex of around Rs.800 Crores in the last 5 years, we are likely to pay all our existing debts by next financial year end. Any new debt will come for financing new capex only. With these words, I open the conference call for questions and answers. As promoters of the company are on call, I will request you to focus more on quality questions, query relating to number, etc., can always be mailed to myself or Mr. Rathi separately. Please go ahead with your questions and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now being the question and answer session. The first question is from the line of Sneha Talreja from Edelweiss Broking Limited. Please go ahead.

Sneha Talreja: Sir, first question is actually related to the Laminates division. In case you can highlight that why our volume growth has slowed down in the particular quarter along with some margin cooling off, secondly, we have also seen your realization slowing down in this particular segment any specific reason for the same?

Keshav Bhajanka: You see last year we had deferred our catalogue launch. As such, our catalogue launch, which normally year-after-year takes place in July took place in September. As such, we saw a slow Q2 but a very good Q3. Here the base effect has therefore played a role and as such you are not seeing very high growth in terms of turnover. However, I think this will be corrected in Q4. Alongside that the EBITDA figures are substantially better than last year, we have done a 14% EBITDA as compared to 9% in the same quarter last year and we are going to look to improve upon the same going forward.

- Sneha Talreja:** Keshav, you also mentioned in your presentation that you are looking out for around 13% of value growth in this particular division for whole of this year, so actually, if you speak, I think Q4 guidance would also remain muted if I just adjust for this number?
- Keshav Bhajanka:** No. If you look at as on date we have 13% growth in terms of volume and I believe that we are going to maintain this so Q4 growth should again look at around 13% to 15%.
- Sneha Talreja:** That is the value growth that we are talking about?
- Keshav Bhajanka:** Yes, value growth.
- Sneha Talreja:** What is the current mix in the Laminates division like how much is exports and how much is domestics?
- Keshav Bhajanka:** Exports would be close to 25%, domestic would be 75%.
- Sneha Talreja:** Any specific reason for fallen realizations in the particular quarter because I think for your peer we have been seeing increase in realization now?
- Keshav Bhajanka:** We had increased the share of 0.8 mm as a percentage of our total basket. So, the profitability in 0.8 mm is quite good, but 0.8 mm sells at a lower price. Even though the profitability is good it will bring down average realizations.
- Sneha Talreja:** So that is just a product mix change?
- Keshav Bhajanka:** Yes.
- Sneha Talreja:** Also, if at all you could just give some highlight that what is happening in the plywood front we have thankfully seen volumes growth coming back so if at all you could give some update with your loyalty program, where have we reached in terms of acceptance across pan-India level?
- Sanjay Agarwal:** In plywood, actually, we are really not doing as well as we really want to. So there is some growth, but I will not claim that yes we are doing really well, but I really look forward. We have started loyalty programs with our dealers, with everybody in the system and I think these loyalty programs take a long time to really mature and deliver something for the company. So going ahead, I think we will see better times in next year, but right now I really do not see and I do not claim that we will really do better than what we are doing as far as this year is concerned.
- Sneha Talreja:** Sure. So I mean no specific green shoots that are visible in this particular segment. I think it will more or less remain here is what you are suggesting?

- Keshav Bhajanka:** You see if you look at this quarter we have grown by close to 8% to 9% in terms of our core Plywood segment. I think that in the last quarter we should be looking at a similar growth. So for the entire year our growth should be 4% plus.
- Sneha Talreja:** Right. I mean I just wanted to know your visibility beyond this next quarter in the sense are you seeing that demand is coming back or the strategy that you were adopting of implementing this program is over and now can we see the growth coming back from next year onwards?
- Keshav Bhajanka:** I think that the market does not show any signs of investor respite, but we are fighting our way to a higher market share and as such the program that we have tried we cannot give you a definitive answer, but it is starting to yield some results. So going forward I can definitely see a double digit growth in the near future.
- Sneha Talreja:** Sure. That is helpful. Just one last question if at all I can squeeze in now. For the MDF segment, now that you have I think finalized the plan could you give some color, what is the kind of capex that we are looking out for; you have also mentioned fungible capacity so how much is the capacity for MDF and particle board and what is the time line that you are looking at?
- Keshav Bhajanka:** We have practically finalized the plan. The total capital outlay should be anywhere between Rs.450 Crores to Rs.500 Crores. It will be a combination line, which will have the ability to produce both, particle board and MDF. The capacity for particle board will be 900 cubic meters per day vis-à-vis the capacity for MDF close to 600 cubic meters per day.
- Sneha Talreja:** What is the expected time line that we are looking at for this plant because we are almost running at optimum in both the cases?
- Keshav Bhajanka:** You see what happened is that there is a stay order that has been put against all the licenses that had been issued by the UP state government by the NGT because of a petition that has been filed by certain local NGOs. The UP state government has taken this up very strongly and they are now having the senior council represent them in the NGT. The next hearing is on February 13, 2020. So we have shortlisted a land, we have already finalized the machinery, but we are waiting for the stay order to be lifted and once it is lifted we can go full steam ahead. I think it will take us 15 to 16 months post the date of the order being lifted to start production from this unit.
- Sneha Talreja:** Thanks a lot, Keshav that was really helpful. I will come back in the queue for followup.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Just one question. I do not know if you highlighted this about the laminates in the starting or not, but growth in laminates seems to have come off this quarter, we were very confident of maintaining a double digit growth rate in laminates for the last few quarters, could you give us some sense as to why this growth has come off and secondly how is domestic and exports growth rate be at first?

Keshav Bhajanka: Like I just explained, basically, last year, we had a very strong Q3 because the catalog was launched just before Q3. As such the base effect has resulted in a lower growth in this quarter, but yes, we should be back to a double digit growth in the next quarter itself and we will be looking to maintain a 13% plus growth for the entire year. The exports are about 25% of our total portfolio, domestic is 75%.

Prashant Kutty: The reason as to why I asked this is while I understand you said the base was very high, but if I actually look at it from a sequential perspective also versus the previous quarter, our revenue numbers have fallen, so Rs.135 Crores revenue number was fallen to Rs.115 odd Crores so just wanted to understand that is it just base or has domestic moderated more, if you could just give us a sense in terms of how much is domestic grown at and how much is the exports grown at?

Keshav Bhajanka: It is basically just base because if you look at it every year Q3 is lower than Q2. Q2 before Diwali is normally the time when everybody looks to finish off their homes and as such the demand for laminates, plywood, and all our products increases significantly. So Q2 for us is always a strong quarter and Q3 is a slightly weaker quarter. Like I explained to you last year there was a difference, last year Q3 was very strong and it was an exception to the norm rather than the norm. I think domestic and exports both have been flattish. I will get back to you with the exact numbers going forward or Abhishek can update you obviously.

Prashant Kutty: Second question is on the MDF side of the business. You have said that you will take about 15, 16 months to commission this, but typically, from a capital outlay perspective, Rs.500 Crores of topline, what is the kind of topline should we assume similar kind of asset turns or are you probably expecting it to be a little better in terms of both MDF and particle board because you said it is a combination line and I am assuming that you will have a relatively better machinery and so on and so forth. So, are we looking at a relatively better asset turn in these facilities?

Keshav Bhajanka: You see the asset turnover is likely to be very similar to what we have in MDF at the moment. However, one thing that we should take note of is particle board in terms of realization is slightly lower than MDF so that will change the dynamics, but the capacity utilization from this unit should be far better than what we have seen from our Hoshiarpur plant for the simple reason as it can produce both MDF and particle board. We can run the plant for half the month with 300 cubic meters of MDF and for half the month with 450 cubic meters of particle board so the capacity utilization or 100% capacity utilization should be reached much faster than our existing unit.

Prashant Kutty: The last part is in terms of the MDF demand side and probably how is the demand supply dynamics right now we were probably running still a little short in terms of supply I think is that now largely complete, are we probably hearing any other players also kind of getting into the market or how is that situation panning out in terms of demand supply for MDF?

Sanjay Agarwal: There is a plant coming up by Rushil in the South as far as MDF is concerned and even we have grown since last year, good growth. Actually, the growth we were expecting was much, much better, but still, yes, the growth in MDF segment is quite good and we have grown. The others have also grown. I think you will find similar kind of a growth in other manufacturers also, but due to these two, three new manufacturers coming in the South we are not so related to it does not affect us much. In North there are very small capacity coming up, so I do not think that we will have a problem, but yes, they will lap up some of the market maybe because I think these two plants are 200 cubic meter each, so they will take up some of the growth, which is coming in. I really expect in MDF, I really expect the market to grow much, much better in coming times if the economy improves and whatever the figure for the January manufacturing index is much better so if it continues I am sure that it will help us.

Prashant Kutty: The Laos as of now we have provided it for completely entire impairment is provided, right just a clarification on that part?

Arun Julasaria: In fact, we have taken the impairment on the basis of realizable market value of the assets. So, this is we have estimated what we could realize by selling all the assets. So, on the basis of that, we have taken our higher side, but we cannot say, there may be in fact out of our Rs.75 Crores investment we have taken about Rs.46 Crores. Finally, there may be Rs.5 Crores here or there when we finally dispose of the assets. As we said in the beginning we are trying to revive so we have taken to say higher side you could say.

Prashant Kutty: Thank you very much.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital Advisors LLP. Please go ahead.

Manoj Bahety: I have a couple of questions. First one is on MDF. Considering the stay order in UP, is there a plan B, like if this stay order does not remains for next 3 to 6 months in fact the thing is that already I think we are late in terms of putting new capacity. Already, I think we are at optimum capacity utilization so just wanted to understand like for next 16 to 18 months how you are seeing the growth considering MDF like already we are at optimum capacity utilization so this is my first question?

Keshav Bhajanka: When we came into MDF in the year 2017 everyone said you are 7 seven years too late. So, while I do agree that we are close to optimal capacity utilization, but we are figuring out ways to increase

capacity utilization even for this plant can be run at 115% to 120% of the rated capacity. So, we are figuring out ways of how to do that. We have hired a very senior consultant, and they are working with us in the journey of how to increase capacity utilization further. When it comes to Uttar Pradesh, there are, of course, a lot of plan B, but the reason we are focused on Sitapur and on Uttar Pradesh are because it has the lowest cost of timber and it has the lowest cost of transportation to our primary catchment, which is the North and Central India. We had a license in the South, but setting our plant in the South today is not very economical. We have a shed already created in Hoshiarpur, but again ramping up capacity in Hoshiarpur where the price of timber is higher than the price of timber in Uttar Pradesh did not make the economic sense to us. As this is a long-term decision, it is not a decision for 6 months or let us say for 1 year, it is a decision for the next decade and more. We have decided that we will wait for the outcome of the Sitapur and the UP case. I do not think it will extend beyond 6 months, but if it does, definitely, we do have plan B and a plan C as well, but at the moment we are focused on plan A.

- Manoj Bahety:** This 20% expansion whether it will require some capex or Brownfield capex?
- Keshav Bhajanka:** No, zero. This is all going to be due to operational efficiency and a reduction in the overall unplanned downtime of the plant.
- Manoj Bahety:** Based on like initial discussions with the consultant what is the probability that this 20% kind of efficiency can be achieved?
- Keshav Bhajanka:** The consultant says 100% we need to wait and see, but let us work it out and we will get back to you.
- Manoj Bahety:** My second question is just it is a bookkeeping question. I was looking at like fund flow summary. In fact, like our balance sheet has seen significant improvement in terms of reduction in debt as well as containment of working capital, but there is one line item which says that increase in loan from related party of Rs.95 Crores what it is and why it was required when the company was generating good amount of operating cash flows?
- Arun Julasaria:** In fact, whenever promoter save extra money they give to the company and I borrow from them at lowest interest rate. I replace it with higher interest, which I am borrowing from bankers. I borrow it at the lowest interest rate I pay to any third-party. So, this is just only replacement of higher loan with lower interest loan.
- Manoj Bahety:** Got it. Thanks for taking my questions and wish you all the best.
- Moderator:** Thank you very much. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: I think I had a question rather two questions. One was in regarding to face veneer from Gabon and other sources, where are we in terms of sourcing of that and has the Gurjan fiber from Burma started to come back again for us?

Keshav Bhajanka: So, let me break this into 2 parts. With regards to Gabon, there is a lot of oversupply in the market because there have been n number of units that have been set up in the markets. As such, what we have observed is the realization has fallen and the cost of raw material has remained the same. The Gabon units right now are not profitable. So, our unit is ready for beginning production. We have deferred it by say a quarter. We should start production around April. We are going to rely on Gabon and Myanmar both for our own in captive demand and whatever material is produced as B and C grade other than our captive demand is going to be sold into the market. So, what we are doing is we are consciously reducing our veneering activity because at this point in time there is a lot of fluctuation in the market. There is a lot of uncertainty so we are only going to manufacture so much as is relevant for our in-house domestic capacity and whatever excess B and C grade is generated we will be selling to the market. So, our stake in commercial veneer will continue to remain small.

Ashish Kumar: So, we have been seeing this 50% dip in commercial veneer, in fact, for the last few quarters do you think it will go down to almost near zero or we are at the bottom of where we should be?

Keshav Bhajanka: I think we are close to the bottom of where we should. Once the Gabon plant starts operations maybe it will increase slightly, but that is just going to be a replacement of the commercial veneer we are buying from the market. We are going to be sourcing from our own units and the remnants are going to be sold into the market. So, there is going to be no substantial increase. Yes, there could be a slight increase once Gabon starts.

Ashish Kumar: What about Gurjan, the Burmese face veneer?

Keshav Bhajanka: So now in Myanmar because all the manufacturing units are actually shut down, so the cost of timber has fallen drastically. We are sourcing Gurjan for our own unit and again the excess that is produced, the B and C grade, is being sold to the market. We are going to limit our activities to the same in the near future as well.

Ashish Kumar: But do you have no problems in terms of what you require for your own capacities currently?

Keshav Bhajanka: No. We have no issues. In fact, currently, considering the supply glut in the market we were doing a calculation where purchasing from the market might be a better option than sourcing from Gabon at least for the next quarter.

- Ashish Kumar:** In terms of the plywood demand at the middle and upper end, you said that you continue to see market will continue to remain sluggish, any green shoots that you are seeing, some of the people kind of seem to indicate that there are some green shoots, but any green shoots that you see?
- Sanjay Agarwal:** I think one thing, which has really happened and which is really good is that everybody in plywood industry is now more alert, are trying much, much harder, at least I can speak about CenturyPly and everybody in the whole system has become so active, and now we are trying to go deeper in the next phase, so all these things will certainly come out with a great result, but yes whenever a change such kind of a change happens, it is going to take some time. So, I still do not really project too high a growth. I had been always telling that we will be about at 6%, 7%, 8%, 9% growth. So, I think that is the growth I still expect today and I will say at the moment, which is too good. Rather I now believe that we have been saying that it will be good, it will be good now let it happen and then we come out to you and say that yes we have done it. I think that is the better way to do it.
- Ashish Kumar:** Hope and wish you all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.
- Karan Bhatelia:** Sir, when do we see the real benefits of GST, e-way bill on the plywood industry because if you see the other building material verticals, their growth has been way better than what we are doing in the plywood segment so at the industry level where can we expect the benefit to really kick in because if you see the share of unorganized in plywood is still where it was 3 years back?
- Sanjay Agarwal:** Absolutely and the reason is also very clear, you see. Unorganized is still doing what it used to do. There is no change in the modus operandi. So yes, if the difference between us and them was 40% to 45%, it has reduced maybe to 35%, but then still that is really not helping because still the gap is too big and they are still resorting to all kinds of methods, which they used to do earlier, but the way the government is going I am sure it will take some more time, yes, but then I am sure that they will plug in all the loopholes and the benefits will come. But yes, it is a slow road. It is a long track, but I am telling you we are now no more dependent on and we are not waiting for this GST to give us result. Whatever will come will come slowly so it will be factored in, and it will not be like that overnight some changes are happening, no that will not happen, but the way now we are working in our processes and in the markets and with the consumer, with our influencers, with our distribution system, I am sure all these things will have to give results, but yes, any such change takes time. So, it has been about a year on we have been on this, about a year or maybe a little more on this and I do not want to promise you that yes this and this time something will happen, but yes, something will happen. That much I am sure.

- Karan Bhatelia:** How are things on the under billing side because in tiles we have seen some dip in the under billing invoices so do we see similar thing for plywood?
- Sanjay Agarwal:** You see in plywood, what has happened, people are still delivering without invoice, people are still delivering at 30% invoice value, and people are still delivering 2 trucks on the same invoice, so everything, which was happening earlier, is happening today. Even they are paying less wages to labor, they are not paying full electricity bills, so everything, whatever was being done earlier, is being done today. The only difference is we have our duty has become little lesser than earlier. It was 28%, 29%. compared we are now paying 18%, so that much difference has come down. That is all.
- Karan Bhatelia:** On particle board, are we looking at similar debottlenecking exercise like we are doing in MDF until the UP capacity is up and running?
- Keshav Bhajanka:** Yes, we are. We are looking at a similar exercise and in particle board I am very confident that we will be able to unlock at least 20% or 25% additional capacity within the next 2 quarters as such.
- Karan Bhatelia:** With both incremental capex?
- Keshav Bhajanka:** This is going to be nominal capex. You can say it will be less than Rs.4 Crores.
- Karan Bhatelia:** What is the number for MDF capacity expansion?
- Keshav Bhajanka:** Zero. MDF, it is just a process change, like I mentioned earlier. It is going to be debottlenecking and a reduction in the number of unplanned shutdowns.
- Karan Bhatelia:** Yes. How much capex are we looking for MDF for the small capacity expansion?
- Keshav Bhajanka:** Zero.
- Karan Bhatelia:** That is it from mine.
- Moderator:** Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.
- Pankaj Tibrewal:** My first question is on MDF. On the margin front we have seen a year on year in terms of earlier we were at higher level then we dipped down and then we have again come back to 23%, 24%, how much confidence you guys can give us in terms of sustainability of the margins on MDF?
- Sanjay Agareal:** In MDF, you know that earlier, there were problems when the new capacities of Green and new capacities of Action had come. At that time, the prices have dipped, every month it was dipping and

that is actually the profitability went down at that time and after that it stabilized and now whatever benefits or more better profitability you are seeing is only because of the better capacity utilization and a little more efficiency in the plant. So these are the 2 things, which are happening. So now if I can actually reach 100% capacity utilization or 105% capacity utilization, which we, of course, are trying, the profitability certainly go up and you will see that in the particular month I think last year, January, our plant had shut down for some time, and the profitability has really gone down. So right now, it is all game of actually higher capacity utilization.

Pankaj Tibrewal: So, you believe that 24%, 25% margin is sustainable or does it have an upside bias looking at the environment today?

Sanjay Agarwal: Upside I will not say because there are always chances of price falling, competition, but then I can see that, yes, we can sustain this, if something really drastic does not happen. Until then I think we will certainly sustain this.

Pankaj Tibrewal: My second question, Sanjay, to you, is that on the plywood side this is the almost sixth year as the profitability of this division is in the range of Rs.180 Crores to Rs.200 Crores. Yes, growth has been anemic, but the surprise has been the margins, which have been dipping down for the last 5 years and this quarter it made a new low of 12% almost. So just trying to understand that what are the efforts you all are doing as a management team to make sure that yes, growth is a little anemic, but at least profitability, which was very strong at 16%, 17%, which has now dipped to 12% can revert back, the job you guys have done on laminate, the job you guys have done on MDF is really commendable, coming back to the profitability normalization, but the same thing has not been seen in plywood. So, can you help us understand?

Keshav Bhajanka: So as you said, in this quarter, the profitability was quite low, about 12.5%. The basic reason behind low profitability in plywood for this particular quarter was that our cost of goods sold went up slightly by about 0.3%, 0.4%. Decorative plywood, which is a considerable chunk of our profit reduced in profitability impacting about 0.5% of the EBITDA. Commercial veneer, I have told you, has gone from a lucrative business to a loss-making business. As such we are curtailing our activity. So, the 15%, 16% EBITDA margins that we would see in plywood earlier they also had the contribution from commercial veneer, which as a segment now we are trying to distance ourselves from. So, I am very confident that we will be able to revert to at least a 13% plus EBITDA level by the end of this quarter itself, but going forward it is going to be a slow and a consistent journey to get back to 14%, 15%. Maybe over the course of the whole of next year we should be targeting a 14% EBITDA margin, but at the moment this quarter the visibility I can give you would be closer to 13%.

Sanjay Agarwal: I would like to tell one more thing. If you heard or read our earlier recordings, when we were doing 15.5% or whatever, at that time, even our comments were that we will be very happy to retain and

sustain at about 14%. That was our comment at that time also. So, we were too aggressive on these things. So, we do not want to really promise you and then go really bad. So, if you look at our past recordings, you will find that, that is what we have always tried to tell you.

Pankaj Tibrewal: What efforts, ultimately proof will lie on the execution, but what efforts you guys are putting in as a management team to make sure the growth revise back because the brand is strong, distribution is strong what are you guys doing can you help us understand a bit of it, please?

Sanjay Agarwal: We have been away from branding and I believe that in last 3, 4 years, so we will be probably going in for a little more branding. The second thing we are getting into, actually purpose is or our most important thing we are doing is the distribution network and the distribution network is the one thing which we have been working for more than a year and I have been speaking about it, I think, in every conference. I guess we see that, yes, we are going deeper, we are doing better, but still there seems a lot of work is to be done and we find that we are quite popular in the cities and the bigger towns versus the smaller town people really so aware about us. So even that is, again, another challenge we are seeing at the moment. So yes, the work is happening. This kind of a work I do not think what we have been doing in last about a year's time we have ever done in our life actually.

Pankaj Tibrewal: So ultimately, something should come out. Wish you guys all the best. Thank you.

Moderator: Thank you. Next question is from the line of Sneha Talreja from Edelweiss Broking Limited.

Sneha Talreja: Sir, just wanted to understand a bit about the laminates industry, bit of a channel checks and everything suggests that there have been new capacity additions taking place, there are a lot of plants, which have got commissioned. can you just highlight, are you seeing those kind of plants impacting you and how many of such plants would have been added and at what scale are they operating?

Keshav Bhajanka: So 100%, yes. There have been a lot of capacity additions in the recent past. I cannot give you authenticated data because honestly, we are not ready to do the same, but they are definitely creating an impact in the market. A lot of the lower end segments are now flooded with material that keeps reducing by month-after-month, but frankly we are not present in that segment, in 0.6 mm or in 0.55 mm. That grade of material we will never process. So, I think it has not impacted us to that extent, but yes, in the overall market, there are new capacities that have come in and when new capacities come in, the first tool that they use is price, try and offer cheaper prices to the market. As of now it has impacted demand slightly, but I do not think it has had a big impact on the branded sales yet.

Sneha Talreja: Sure, Sir that was helpful and are these players also into exports market like dumping into exports? Or are they just present until now in the domestic market as such?

- Keshav Bhajanka:** You see there are 2 kinds of export markets. One is where you export liners, liners you would be exporting at maybe \$3.5 to \$4, which would be a very low realization where you are not making any money. It is just about maintaining and recovering your overhead. So a lot of these players may have moved into the liner market, which is a mass market, but when comes to export of decorative laminates you will need to maintain certain quality standards. That is not the capability of all the players that are there in the market. New entrants will particularly find it quite challenging. So, I think some new entrants may have entered into the exports but again they are limited in the segments that they would have entered and they are limited by the quality they can produce.
- Sneha Talreja:** Sure Sir that was really helpful. Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Pranav Mehta from Equirus Securities Private Limited.
- Pranav Mehta:** Sir just wanted to understand on this acquisition that you have done on the plywood side. So, what was the capacity and how much have you spent on the same?
- Arun Julasaria:** In fact, this acquisition is made by our subsidiary, Auro Sundram Ply and Doors Private Limited. This was a unit, which was quite adjacent to our existing unit of Auro Sundram. So, our main interest was acquisition of that land for future expansions. As such, this unit can produce around 4,000 CBM of plywood as and when demand picks up, but our main interest was the acquisition of that land.
- Pranav Mehta:** Any further acquisitions that you are looking at plywood or any other divisions?
- Arun Julasaria:** No. In fact, we are not looking at and it depends upon the opportunity which comes at the table. We are not looking at any acquisition in plywood, but again it depends upon the opportunity when it comes on the table.
- Pranav Mehta:** Sure Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Aasim B from IDFC. Please go ahead.
- Aasim B:** Just I was looking at your Q3 performance in particle board. Your revenue has declined by 6%, but your EBITDA has grown sharply. So that is a pure margin expansion play over a year. So, I just wanted to know what drove that margin expansion in Q3?
- Keshav Bhajanka:** There are other factors that led to that. You see, the reason that our turnover was less because the plant had to go through shutdowns for about 15 to 18 days and because of that the quantity of material that was produced was less. The reason behind the shutdown, basically, that we are trying to augment capacity, as I mentioned to you earlier, and that will require a few tweaks in the machinery. Having said that, EBITDA margins for particle board look quite still at the moment, we had margin of close

to 28% for the entire 9 months I think in Q4 as well we should be targeting this similar 27%, 28% margin.

Aasim B: Yes, but I was just wondering, how did this margin expansion happen despite the fact that you took a shutdown of 15 to 18 days that is actually what I was looking at?

Keshav Bhajanka: You see, if you look at last quarter as well or if you look at the entire year, our margins have been fairly stable. Last year margins were lower, but after that margins have picked up. Last turnover is Rs.26 Crores, this quarter our turnover is Rs.25 Crores, again, a margin of 29.7% EBITDA last quarter we are at 27.1% this quarter, so margins have been fairly stable. I think you were referring year-on-year.

Aasim B: Year-on-year, yes Sir. So, is it a factor of just your capacity utilizing that has improved year-on-year, is that what has driven margin expansion?

Arun Julasaria: Basically, margin expansion is due to expansion of gross profit margins. You will find that gross profit margins have gone up by almost 5%, if you compare Y-o-Y. So that is due to multiple reasons. In fact, efficiency in running the plant, a little bit correction in resin prices then better capacity utilization then day-by-day plant is also becoming stable.

Aasim B: Sure. Sir, second question, the 8% core plywood volume growth that you have reported in this quarter, is that also purely a market share gain story and could you also break this up between growth in premium and mid-market segments?

Sanjay Agarwal: As far as the breakup between the 2, it is not available at this moment, but then I am sure Rathi can give you by tomorrow or so that is not a problem at all and this 8% growth is actually maybe the result, I do not see much movement in the market very frankly. There is not much movement in the market, but whatever efforts probably we are trying to put in some months I see that it is getting better. In some months I find that, yes, I will not comment that whether we are doing it sustainably is going to give us result Yes.

Aasim B: Would you be able to comment on the whole plywood industry has that seen a decline in Q3 as well or is it more flattish?

Sanjay Agarwal: That will be actually just giving you a data by thinking, yes, this is right. We have no data, absolutely no data very frankly. It is said that there are about some 100 units in Yamunanagar has closed down, but then there are no data absolutely. So, comment on that I do not think is really proper actually.

Aasim B: Sure, Sir. Sir, finally, just another bookkeeping question. In Q3, your minority interest is a big negative number this is entirely because of the Laos impairment, right?

- Arun Julasaria:** Yes, basically due to Laos impairment. Rs.46 Crores is impairment figure so that have made the figures haywire completely.
- Aasim B:** Thanks a lot Sir.
- Moderator:** Thank you very much. Next question is from the line of Bhavesh Chauhan from IDBI Capital Markets. Please go ahead.
- Bhavesh Chauhan:** Sir just wanted to ask about the competitiveness of India in MDF. MDF seems to be imported at Rs.14000, Rs.15000 per CBM and our cost of production, if you consider 25% EBITDA margins, would be around Rs.16000, Rs.17000 per CBM so what is the difference between the competitiveness or cost of production between global companies and Indian companies?
- Sanjay Agarwal:** See for India, basically, there are only 2 factors in this. One is the cost of real and another is logistic. So, any plant in the north it is absolutely impossible for us to export. So, if the plant is somewhere near the port like Green today is exporting quite a bit of their production, but they are exporting because they are unable to sell in India. So, they have to export. So actually, India is still not that capable to export, but yes, under duress because you have no choice or maybe we have some export obligations we need to export. The reason is mostly logistic. In other countries, the logistic things are so well organized and with large, huge volumes, their costs are so low that it is viable for them to export. If you make even \$5, \$7, it is yes, we will set up plants and we will export. It does not matter, but then even that is not possible.
- Bhavesh Chauhan:** So basically, you are saying that there is a huge scale at which the operations run globally and that is why they are able to export even at Rs.12000, Rs.13000?
- Sanjay Agarwal:** Not only that. The more important is the logistics. If the logistics are right, if you are at the right place, if you have the right kind of cost for moving the goods so in Malaysia or say in Vietnam, the factories and the timber are very near to the port, so that is how actually they are able to manage all the logistic costs very well.
- Bhavesh Chauhan:** Thank you Sir that was helpful.
- Moderator:** Thank you. Next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.
- Shrenik Bachhawat:** This is Shrenik from JM Financial. Sir, my first question is even I did some channel checks in Yamunanagar, and I got to know that some 20% of the plants have shut down and more will be shutting down by March. Sir, I wanted to know if these plants are actually shutting down, will it

benefit the organized base or the customer base is different for Yamunanagar and branded players like us?

Sanjay Agarwal:

Ultimately, the customer is same. There is no difference. The story what you hear that Yamunanagar plants have closed down even I just spoke and there is another corollary to that. Earlier, you see because of the excise exemptions people used to set up one plant and then they will have some other plant next to their existing plant just to show that there is a separate plant, but which will really not operate they will actually take out the material from the first plant itself. So all these units, which are saying that they are closing down, are these plants, which are actually, you can say, kitchen plants, most of them. So they are not actually closing down the main plant, the main plant is still operating and the kitchen plants are getting closed. So it may be 100, it may be 200. There are supposed to be 3,300 units across the country. So out of that, maybe 500, 700 will be like this kitchen plants or maybe 1,000 may be like these kitchen plants actually and plywood market is vast, about, say, Rs.28000 crores, Rs.30000 Crores is the industry. So out of that, even closing down 5, 10 units are going to make a difference, but the units are too small. Ultimately, the government has to really come out with the proper thing. They are trying out RFID thing in trucks. I do not know how much they have succeeded and then they are trying now these invoices from their portal. I think this will actually bring in some solution, but then this one is actually to bring down to the smaller players is going to take a lot of time. They are going to bring in, I think, Rs.100 Crore plus units from April 1, 2020, but getting it down to Rs.10 Crore plus are going to take, I think, 2 years.

Shrenik Bachhawat:

Sir, do you think the rise in the timber costs would have made these small plants unviable?

Sanjay Agarwal:

See, rise in timber costs is there a little bit, but it is not really too much. The rise in timber has been basically for poplar, but the prices of eucalyptus have not really risen. So yes, it makes a difference. Those who are accustomed to making plywood of only poplar, yes, it will make some difference to them, but I think poplar or even eucalyptus is not that difficult to handle. I do not think that is the reason.

Shrenik Bachhawat:

Assuming if we start the construction of the new UP plant in the next 6 months, what will be the capex mix for FY2021 and 2022 and what will be the debt/equity mix?

Keshav Bhajanka:

I think the CFO will be able to answer the debt/equity mix, but the total capex will be around Rs.400 Crores, I would say Rs.450 Crores for the Sitapur plant and considering our cash accruals are very strong, within 6 months, we are actively looking at overall debt figure less than Rs.100 Crores. So, I do not think there is going to be a drastic increase in that?

Arun Julasaria:

Regarding debt/equity mix, usually, we will go for 75% of plant cost by way of debt. That is usually we will go for, but what happened last time when we set up Hoshiarpur plant, we got I think some close to 25%. but by the time plant was getting set up, we had done a case of accruals. So, we have

drawn only 55%, 60% only, balance we have forgone and we were supposed to pay the whole term loan in 7 years. In our case, accrual was so strong, so we have prepaid within 3.5 years only. That will depend usually we go for 75%, but if our cash accrual is more then we can go for less also.

Shrenik Bachhawat: This Rs.450 Crores of capex will be how much can we factor in FY2021, if we start the construction in the next 6 months?

Arun Julasaria: In fact, for first 6 months, we have to pay only advances to plant suppliers and we hope to pay for land and part of civil court. So around one third is spent in first 6 months and then balance is within 2, 3 years.

Shrenik Bachhawat: Thank you so much.

Moderator: Thank you. Next question is from the line of Manoj Bahety from Carnelian Capital Advisors. Please go ahead.

Manoj Bahety: I just wanted to understand like the way we are seeing the growth in MDF and the kind of subdued growth in plywood, it shows clearly the trend that MDF is taking away the market from the plywood the way it has happened in other countries of the world. So is the similar trend you are seeing in India and if that is the case are we like in terms of if I look at like next 3 to 5 years growth parameters for Century as a whole so still I think we are saying that Rs.450 Crores of capex for the new plant. Again like 2, 3, 4 years down the line, we will be again facing this kind of situation like where our top most growing segment we are running short of capacity so how do you tackle this so first of all my first question, like is it happening that MDF is taking away the overall market share from plywood?

Sanjay Agarwal: I will answer it like this. You need to understand that in plywood there are 2 segments. One is the deluxe segment or the higher segment and one is the lower segment. The MDF and particle board is replacing the lower segment for making the cheaper furniture. As far as if you think that the plywood growth is subdued or it will be taken over by MDF totally, so I will tell you a story about China. I do not have the figures exactly. Our Chairman is today not online, otherwise he would have given you the figures also, he remembers much, much better than us. The plywood growth in China is now bigger than MDF growth. Particle board growth is better than MDF growth. So, there was a time when MDF grew lot faster, did much better, but now particle board and plywood, both are doing much, much better. So, plywood has his own advantages and in a country like India where actually I will just ask you a question. I think I have asked 2, 3 years back this same question. The richest people in the world, how do they get their furniture, suppose somebody on Fifth Avenue he wants his furniture he does not go to IKEA, he goes to a designer and the designer makes his furniture as per his requirement. Is not it?

Manoj Bahety: Correct.

- Sanjay Agarwal:** But the same facility in India is available to everybody because we have many contractors and designers available across in every town. So why will people go for readymade furniture so much, so that is why you will see that the furniture industry in India is growing, but not to that extent. Similarly, that is why I can say with a lot of surety in my mind that plywood will not suffer. There are whatever growth in the total panel industry is coming, a lot of it will be taken by MDF and some of the lower quality plywood, which actually are not good plywood, will be replaced by MDF and particle board.
- Manoj Bahety:** My second question, like, does it make sense to go a little bit more aggressive on capex at least, need to have like surplus Brownfield expansion bandwidth in our upcoming capex facility, so next time, whenever there is this kind of situation like where we do not have capacity, but the demand is there?
- Keshav Bhajanka:** Like I told you, this is going to be a combination. This is going to have particle board and MDF. Maybe 2, 2.5 years down the line when it is running at 100%, we will have the option to just add another hard press, another continuous press and double the capacity of the line. That entire turnaround time would be less than 9 months.
- Manoj Bahety:** Got it. Thanks for taking my questions.
- Moderator:** Thank you. Next question is from the line of Abhishek Joshi from CGS-CIMB. Please go ahead.
- Abhishek Joshi:** My questions have been already answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Suyash Rane from ITI Capital Limited. Please go ahead.
- Suyash Rane** So I have a couple of questions. One question is, is there a breakup which we have in terms of revenue based on sales through B2C and B2B, like B2B sales to the large furniture manufacturers or maybe the real estate player and my second question is, are we affected largely or positively or negatively by IKEAs of the world?
- Sanjay Agarwal:** As far as the bigger, larger projects are concerned, the whole company sale to these bigger projects is hardly 8% or 9%. So, Century has always been focused on channel sales to consumer sales, not much on project sales because there the outstandings are bigger and larger time period and secondly the prices are lower. So, we have never focused into that segment actually and OEMs, yes, we are supplying most of our particle board is going into OEMs. Particularly nothing of plywood is only maybe some 0.5% or 1% may be going into OEMs as far as plywood is concerned and then the similar figures are for laminates also. What was your second question?

Suyash Rane Second question is, are we positively, negatively, how largely are we affected by IKEA or other online sellers yes?

Sanjay Agarwal: So, I still believe you see that IKEA is yet to make an impact. Yes, it will make an impact, but it will make an impact into maybe one city, 2 cities, 3 cities. It is going to be still many, many, many years before it really makes an impact and by then the growth is there and India is a very typical market. I know Turkey, where actually in Turkey when MDF came within 3 years or 4 years' time, from a 0% to 75% of the total panel sales were MDF and particle boards, within 3 years. In India, the first MDF plant came into being I think sometime in 1985 and we all know the results of that Mangalam Timber and the other plant actually and still also whatever plants have come, they are actually not very, very comfortable I must say. So, India is a very different country, we have different systems. So, you cannot remove plywood from our blood. Plywood is going to be the most important product they will use. Yes, and they will make its place. Even IKEA will make its place into it somewhere a little bit, but in a country like India, how one store maybe selling Rs.100 Crore or whatever, it is not going to make much difference very frankly.

Suyash Rane Thank you Sir. All the best.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Sanjay Agarwal for closing comments.

Sanjay Agarwal: Thank you. It was really wonderful to have support from all of you and for your time. We are working very hard. We are using everything possible under the sun to improve the performance of your company and I think as MD of the company, as CEO of the company or a person involved in the day-to-day business, I am more hopeful than I ever was. I see much more possibility things to come than I used to see earlier. So yes, Laos was a little bit of a negative area, but then I think at one of the best possible times, we have been able to write it off. You look at our debt, they are wonderful and we are not even trembling also, even a little bit aberration is there to go in. So, I can assure you that yes, this company will be doing better and better in the years to come, but yes, I think, in these times, a little bit of conservatism is better than a bigger aggression. Thank you.

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