

Century Plyboards (India) Limited

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Dear Sir(s)/ Madam(s)

Sub: Transcript of the conference call for Unaudited Financial Results for the Quarter and nine months ended 31st December, 2022

In terms of Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we forward herewith the transcript of the conference call with Investors and analysts held on Wednesday, 8th February, 2023 for Unaudited Financial Results for the quarter and nine months ended 31st December, 2022.

This is for your information and record.

Thanking you,

Yours faithfully,

For Century Plyboards (India) Ltd.

Company Secretary

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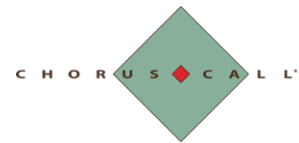
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“Century Plyboards India Limited
Q3 FY '23 Earnings Conference Call”

February 08, 2023



MANAGEMENT: **MR. SAJJAN BHAJANKA – CHAIRMAN – CENTURY PLYBOARDS INDIA LIMITED**
MR. SANJAY AGARWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CENTURY PLYBOARDS INDIA LIMITED
MR. KESHAV BHAJANKA – EXECUTIVE DIRECTOR – CENTURY PLYBOARDS INDIA LIMITED
MR. NEHAL SHAH – HEAD OF INVESTOR RELATIONS AND CSO – CENTURY PLYBOARDS INDIA LIMITED

MODERATOR: **MR. NAVIN AGRAWAL – HEAD INSTITUTIONAL EQUITIES – SKP SECURITIES LIMITED**



*Century Plyboards India Limited
February 08, 2023*

Moderator: Good day, ladies and gentlemen. Welcome to the Century Plyboards India Limited Q3 FY '23 Earnings Conference Call. 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Agrawal, Head, Institutional Equities at SKP Securities Limited. Thank you, and over to you, sir.

Navin Agarwal: Good afternoon, ladies and gentlemen. It's my pleasure to welcome you to this financial results conference call on behalf of Century Plyboards and SKP Securities. We have with us Mr. Sajjan Bhajanka, Chairman; along with his colleagues, Mr. Sanjay Agarwal, Managing Director and CEO; Mr. Keshav Bhajanka, Executive Director; and Mr. Nehal Shah, CSO and Head Investor Relations.

A reminder, during the course of the discussion, there may be certain forward-looking statements, and these must be viewed in conjunction with the risk that the company faces. We'll have the opening remarks from Mr. Sanjay Agarwal, followed by a Q&A session. Thank you, and over to you, Sanjayji.

Sanjay Agarwal: Thank you, everyone, for taking your valuable time out for attending the Q3 FY '23 Century Plyboard's Investor Conference Call. I am Sanjay Agarwal, I'm the CEO of Century Plyboards India Limited. I have alongside with me Mr. Keshav Bhajanka, Executive Director; Mr. Nehal Shah, Head of Investor Relations and CSO; and our respected Chairman, Mr. Sajjan Bhajanka.

I presume that every one of you would have gone through our numbers in detail. Let me speak briefly on the key highlights of Q3. Despite the slower than anticipated pickup in demand of the festive season and sustained inflationary environment, CPIL managed to achieve INR 877 crores revenue in Q3 FY '23, which is just 2.6% lower quarter-on-quarter. On a year-on-year basis, revenue grew by 3.3%.

Our plywood and laminate segment revenue recorded 10% and 5% year-on-year growth, while MDF and particle board segment revenue, they grew 7% and 8% year-on-year from the quarter. With the sustained input cost pressure in timber prices, in particular, CPIL's overall growth margins were adversely impacted by 310 bps on a year-on-year basis and 90 bps on a sequential basis to 32%.

The company's EBITDA margins, adjustment for impairment loss of Myanmar subsidiary 2 were lower by 330 to 210 bps to 15.2% on a year-on-year quarter-on-quarter basis, respectively. While plywood and laminate EBITDA margins contracted by 188 bps and 310 bps quarter-on-quarter. We saw EBITDA margin contraction of 280 bps and 810 bps on sequential basis in our MDF and particle board segment. Timber prices continue to remain at elevated levels and is expected to trend higher over the next quarter. Chemical prices, particularly phenol, melamine and UF resin have softened a bit in last 3, 4, months and are likely to further soften over the next 2, 3 months.

Price increase is second in Q3 FY '23. Plywood 4% on Sainik MR in South India in November '22. Post Q3, we have taken a 2% price increase across all products, except Sainik MR in January '23. Laminate mix -- particle board prices have been cut 4.5% in pre-lam particle board in November, 10% in plain particle board in December. And in Jan, a price cut of 10% in plain and 5% to 10% on pre-lam particle board has been taken.

Our MDF brownfield expansion at Hoshiarpur has manufactured its first board and is likely to commence production in March '23. Our South MDF capex is running as per schedule and is expected to come on stream in second half of FY '24. Our greenfield laminate manufacturing unit in Andhra would come up in 2 phases. The first phase is expected to become operational in Q2 FY '24. As far as our greenfield plywood project in Hoshiarpur is concerned, we have finalized the capex of INR 100 crores, which would have a manufacturing capacity of 60,000 CBM of plywood per annum in the first phase. The land has been now acquired and project is likely to come on the stream by Q3 FY '24.

Greenfield particle board project in Chennai, in the last week Board meet, we had approved investing in a large particle board project with a capacity of 1,200 CBM with an investment outlay of INR 550 crores. Currently interactions are on with the machine vendors, and the decisions are likely to be finalized very soon.

Our working capital stands reduced by 3 more days to 52 days in Q3 FY '23 on a sequential basis. We remain a net cash positive company with net cash position of INR 208 crores as on September 12, 2022. Our Q3 ROCE stands at 23.12%. Considering the Board decision, the disposal of its investment in its Myanmar subsidiary in a further -- an impairment on our investment in Myanmar subsidiary to the extent of INR 2.37 crores in Q3, in addition to INR 47 crores impairment taken in Q2. And with this, the Myanmar chapter is closed.

Now I will request and open the call for question and answers. I will also request that all these discussions and this call could not be construed as invitation for any investments. Thank you.

Moderator: The first question is from the line of Rahul Agarwal from Incred Capital.

Rahul Agarwal: And congrats on a reasonable performance given volatile demand trends, sir. Sir, 2 questions. Firstly, on the overall growth. We're seeing patchy demand across different building material products in last quarter. You have shared your views earlier on long-term sustainability of each of your revenue segment growth going forward, and I'm aware of that. But just given current trends, I need some help on fiscal '24. If you could share your views on each segment, what is the revenue growth we should assume since some capacities will also start over the next 6 to 9 months for laminates and MDF. Could you help me with some kind of internal understanding on this, sir? This is the first question.

Sanjay Agarwal: So I will just answer the question, I think this is better, then go on to the second one. So in plywood, we have always been telling 13% to 15%, but I think now because of the raw material prices, we are trying to revise it to 12% to 14%.

- Rahul Agarwal:** Sir, I'm talking about the revenue growth. Sir, I was referring to revenue growth, sir.
- Sanjay Agarwal:** Yes, yes. Okay. So revenue growth plywood, volume, I think we are looking at about 15% in next 1 to 2 quarters value-wise about 20%. Lam, we have actually been looking at a much higher one. But now we are looking at about 5%. And value-wise about 15%. MDF has been -- because the expansion has been delayed, so whatever we had projected will be achieved once like expansion comes into full form. But presently, for this quarter, we are looking on the year, we are looking at 5% and 15% in value. Particle board, volume is about flat and the value should go...
- Moderator:** Sir, there is an echo coming from your line.
- Rahul Agarwal:** Sir, I'll repeat it, if you can confirm. Plywood volume 15% next 2 quarters, 20% in value, laminates volume 5% and value 3%. MDF volumes 5% and value 15%....
- Sanjay Agarwal:** Value 15%, 5% and 15%. MDF is 5% and 15%.
- Rahul Agarwal:** MDF volumes 5% and 15% and particle board volumes flat and value -- I couldn't hear, sir.
- Sanjay Agarwal:** About 15% to 20%. This one, we are telling you for the year for Q4 FY '23. And after that, actually the situation is so volatile, I don't think we should be actually telling you that what we will be doing for FY '24. So I think next quarter we'll be in a better position to tell you more realistic data.
- Keshav Bhajanka:** The numbers that were given were for FY '23. So for FY '23, the number that we've just spoken, those old 5%. And for FY '24, as you know the new capacity for MDF is coming on board, and new capacity for laminate also coming on board. So right now we are not giving any guidance. We'll work on the same. And depending on the commissioning of the capacities, we'll be able to give you guidance over a space of a month or month and a half.
- Rahul Agarwal:** Got it, Keshav. And lastly, the second question on MDF. There is a lot of discussion and uncertainty around revenue growth and margins for MDF within our investor fraternity. Just need a help on that as well. Based on your own internal estimates, how much new capacity for MDF is coming up in fiscal '24 and fiscal '25 in India separately, if you could help me with that? And what is the worst-case EBITDA margin we should plot for Century over the next 2 fiscals?
- Sanjay Agarwal:** Okay. So if you want for capacity, what is coming up, Nehal, do you have the data? No?
- Nehal:** Yes. So in terms of industry capacity, so I don't have the data at this point in time. But if you look at the current year, the key plants which are coming on stream would be Greenply, which is coming in western part of India. You have actions which is coming up in the north. And we are going to set up in south of India. These are large new capacities, including few unorganized ones which are coming. So these are the key capacities which are likely to come in this fiscal year. So I'll share the data once I have it on hand, so currently it's not with me at this point in time.
- Rahul Agarwal:** Any worst-case margins, what we can do given this capacity?

- Nehal:** So given the capacity, so until the new capacity comes in, we are pretty confident on achieving 20% to 25% margins on the MDF segment. Once the -- let the capacity first come on stream, I think probably we'll review the same and get back to you on that. It's too early to take a call once -- let the capacity come in, and then we'll review and then give a fresh guidance on the margins. I think till the time that the capacity comes in from any large industry players, I think we are still holding on to 20% to 25% margins.
- Moderator:** The next question is from the line of Hirenkumar Thakorlal Desai an individual investor.
- Hirenkumar Thakorlal:** Yes. The first one is a bit of a feedback. I had sent an e-mail to your investor relation site, but did not get any response to that. So I think you can improve on that. The question is, what is the impact you think you are having on our margins due to imports now that the shipping rates are pretty?
- Sanjay Agarwal:** Yes. So you see, it is mostly impacting the margin rates, have been impacted till now for imports will be particle board. Where actually the margin earlier, which we were talking about 25% always, we are now actually reducing it to 20%, around 20% so our margin still.
- Hirenkumar Thakorlal:** And MDF?
- Sanjay Agarwal:** And MDF, we have been talking of about 25% plus always. But now again, we are revising it to 20% to 25% because till now there are now changes, much changes in the pricing. But there may be small changes because the imports are going to come in, and we should be ready for it.
- Hirenkumar Thakorlal:** And just a clarification that is our plywood and laminate also have a significant import component or is it not much?
- Sanjay Agarwal:** Plywood does not have much of an imported this thing and whether the chemicals are there, which are actually already the prices are getting lower and lower because of the shipping rates have come down. In plywood, the margins are affected by a little bit only because of the increase in raw material prices in India. So that actually it's a cycle of plantation, so it may now stay at this level for a year. So -- or maybe 2 years or maybe 6 months. But whatever we have done in last quarter, we'll be doing a little better because we will be -- we have already increased the prices and the margin should improve as far as plywood is concerned.
- Lam, we have been talking always about 14% to 15%. Now we are saying that about 13% to 15%. There is not much changes. But the import component in laminate, the base sticker, the top decorative paper is imported and the glue, the melamine is again imported. Where the prices...
- Hirenkumar Thakorlal:** My question was more on the finished product import. Is there any significant import of finished plywood and laminate?
- Sanjay Agarwal:** No, no, no. There is no laminate or plywood. India has established itself as a supplier of laminate to the world now. Even China has taken a beating and even China is affected, but India is

superior. But yes, as far as particle board and MDF is concerned, these are -- were imported earlier. This will be imported again.

But we are working on different ways and means to even export at times, even go to the government to take some kind of a safety measure, although the efforts are on. But until unless they happen, yes, the import will impact a little bit. And actually, what we have done is last after COVID because of the imports, we -- before that, whatever process we were making, were okay. But then we all got adjusted to the new very high profits. So as far as particle board is concerned especially that has already actually been mostly corrected. I don't see any further, whatever has been done, I don't see any further price reduction in particle board now.

Hirenkumar Thakorlal: The second question is related to your experience on the -- so what is the typical lag of purchase of this plywood and board and everything in relation to the real estate cycle. So the question really is, let's say, a house is purchased, apartment or a house is purchased. And after -- typically after what period of time do the purchaser comes into picture? The idea behind the question is...

Sanjay Agarwal: I understand your question. Actually you all know, we all know that in India real estate market was passing through a very bad stage. So there was a lot of inventory. And that's why I believe that last whatever good time we had was because of the clearance of that inventory and people are moving into new houses and making them.

Now going forward from here, a lot of new projects have been approved are on, you can see daily newspaper, you can find that, yes, a lot of them will be coming. As far as this gap from the day I buy, it all depends whether I have bought when the land was -- the project was announced at that time or I have bought, I guess finished goods -- flat. So it depends because if a project is going to be established now, maybe it may take about 2, 2.5 years to the erection of the building.

And if I buy a readymade flat, then usually after I buy a readymade flat, it is within a year that we try to do because there are not many investors now. Most of them, people now into always are really invest, actually invest. So that's why the moment I buy, I'm excited to get into my new readymade. So it happens fast.

Moderator: The next question is from the line of Achal Lohade from JM Financial.

Achal Lohade: Sir, I wanted a clarification. If you look at the ply, the ply has been growing at a fairly steady pace. If you look at for the quarter, it is up 6% Y-o-Y, 11% on 3 year CAGR. While we see in laminate, we're seeing a volume drop Y-o-Y and a very subdued volume growth and MDF is declining. So if you could clarify or give some sense in terms of the demand scenario? Has the demand really taken a beating and that's why everything is looking big. But plywood is doing very well. Can you elaborate a little bit on this because this is happening for last couple of quarters.

Sanjay Agarwal: Yes. You see, if I look at plywood, in plywood you see we are -- if you really see the total market is huge, and we are trying to get into the belly of that market. So that's why I still believe that plywood has a big upside for us in times to come. We have been doing many experiments. You

all know, we have told them from time to time. I don't want to get into details right now. So all of those experiments are resulting, but not the kind of results we actually expected. But yes, they are resulting and we are seeing an upside into plywood.

As far as MDF is concerned, you see, we have not grown because our capacity did not come into production, it has been delayed, we expected it to come a little earlier. Now it will come in March. Laminate, I will let -- leave laminate to Keshav actually. But as far as MDF is concerned, MDF will grow and MDF is growing. We don't have the capacity, so that's why we cannot grow.

It has very good demand. And that's why you see the prices in particle board has gone down, but the prices in MDF has not gone down till now, expecting 2%, 3%, 4% here and there in how some of the retail happened, but not much. Why? At least MDF demand is robust, good. Plywood demand is good. It is only our weakness, I must say that we have not increased the prices to another -- by another 2%. We have only increased 2%. But yes, we will come around that actually.

Keshav, can you tell him about the laminate? Are you there?

Keshav Bhajanka: Yes, I'm here. Yes. So I was saying that in laminate, last quarter was definitely a disappointment. I think that demand on the ground has been relatively weak. So this could be as a result of huge pressure on the unorganized players. But we are working on solutions around the same. I think there could be a further 1 or 2 quarters where we face the challenge. But post that, we have our strategies in place. And from Q2 next year onwards are expecting to see a good turnaround in laminate.

Achal Lohade: Sorry, I couldn't catch you in between. You said that demand is relatively weak and the competition from the unorganized has increased. Have I got it right?

Keshav Bhajanka: Yes, exactly. This is the current scenario on ground and we are working on strategies to combat the same. Nothing changes overnight, but we might see 1 or 2 quarters of muted demand going forward, post which we are very confident, from Q2 onward we shall have changed around. We are launching second segment. So I think from quarter 2 of next year, you will see a much better growth in laminate.

Achal Lohade: So, if I say in case of why like Sanjay already pointed out, it's to do with the mid-segment, which is driving the growth. Does that mean the margins, what you have indicated is more a new normal now -- but really are not part of phenomena for both laminate and plywood?

Keshav Bhajanka: It is part of thickness size, 14x6 size as well. They are coming up in 10x4 size as well. So these are sizes in which you will love your presence. So as we think of product offering, there must be a tremendous scope for us to increase overall volume. So that segment we are not present in. And as long -- as well as that, we are exploring other avenues which might be in the same size...

Moderator: Mr. Keshav Bhajanka, sir, we are not able to hear you.

- Keshav Bhajanka:** There are multiple offerings we are working on. So both on a larger size press that will be commissioning by Q2 of next year that is what I want to add amount of growth for our overall top line. Other than that, the other segments that we are contemplating. But right now haven't chosen, we'll give you details as and when they go forward.
- Achal Lohade:** And just, again, on the particle board, you have taken a [inaudible 0:26:22] price cut, what is driving this? Is that entirely landed cost of imports, price difference earlier and now in terms of our selling price and the landed cost of imports?
- Sanjay Agarwal:** You see, as far as particle board is concerned, the major customer in OEMs. There is not much of a play of a brand name, accepting a little bit 2 percentage, I must say, there is a benefit of a brand, but not a big play. Even MDF in India has started getting a benefit of a brand by 7% to 8% by now. For the plywood we know had a very huge benefit. The particle board does not get more than 2%, 3%, 4% of benefit because of the brand. And because of the imports and the user is mostly a very cost conscious person, he is not a customer.
- So that is why actually the prices have come down very fast. As far as MDF is concerned, MDF is an OEM, but MDF is being used by many customers and many architects and many contractors also. And there we have a lot of value added, about 50% of our products is actually is actually value-added product. So that's why MDF probably has not been impacted till now so much. But particle board is the easiest thing to get impacted, yes. And it is only because of the import prices.
- Achal Lohade:** The kind of price restructuring you've seen, does that alter your plans with respect to particle board capacity, that 20% margin? What is the IRR we would expect?
- Sanjay Agarwal:** Yes. So on the particle board side. So at the current price levels, the IRR or the ROCE is what comes to -- would be around 15% to 20% levels. Having said that, we have not even built in the savings, what we would get from the continuous press. So we would work that out once the operations start. But yes, we would get benefit of at least 5% to 7% on the raw material side as well. So we would still believe that 15% to 20% on a continuous line, we should still be able to generate our ROCE at the current level of pricing.
- Achal Lohade:** And this is post-tax or these are the pre-tax numbers?
- Sanjay Agarwal:** These are all pre-tax numbers.
- Moderator:** The next question is from the line of Dhananjai Bagrodia from ASK Group.
- Dhananjai Bagrodia:** I just wanted to ask you, sir, what cost advantages would we have by putting up a new factory for MDF versus any of...
- I wanted to ask you, sir, what cost differential or cost benefits we would have versus other players in MDF in when we setup a capacity?

What cost benefit would we have while setting up a capacity in MDF versus, let's say, other players who are also setting up similar capacities?

Sanjay Agarwal: Why should there be a cost benefit because everybody is buying from that market, selling into that market. So I don't see the only benefit Century Ply has is that most of our funds are internal and whatever loan -- small loan we will be taking probably we will be able to repay it within the very short period. And so that is why there is a very big guarantee to our investor that even we will be a little better than others. That's it. The percentage is much better. The profit will be a little bit certainly better than other profit.

Dhananjai Bagrodia: So there's no cost benefit as such. And even on the sale -- even on the sale price, would we be selling higher versus competitors? Or would that also be similar then?

Sanjay Agarwal: Again, I could not understand. Price-wise, you see, there are 2 kinds of competition as far as MDF is concerned, one is unorganized small manufacturers and most of them are in Gujarat. And there are the large ones. In large ones also, there are people who, I'm not taking the name, who sell about 6% super to us. The smaller ones, sell us about 7% to 8%. Even in North India there are many MDF manufacturers. They sell about 6% to 8% super to us.

As far as particle board is concerned, again, this Gujarat site sell 3%, 4% super to us, that's all, because in particle board there is not much of a difference. But yes, there is a difference in size -- there we have a big advantage when we are manufacturing, say, 9x6 or 8x6. So in particle board that is the size which sells most, where we have a very big advantage and all the small manufacturers manufacture 8x4. So there is a price gain we have because this larger size yields better yield to the user. The wastage in their factory is much, much lesser.

Dhananjai Bagrodia: And sir, Plywood also, would our production have any cost advantages as we scale up versus other players?

Sanjay Agarwal: You see, in the existing factories, whatever we have been able to utilize, our capacity is higher, certainly it will have better margins in times to come because we are utilizing more and more capacity with the same kind of expenses. We are trying many, many different new schemes as far as laminate is concerned, plywood is concerned. And in the market, we are trying to make them organized market. Of course it is shipping is on time. So I believe that, yes, in plywood, there will be a cost advantage, if you utilize our capacity higher than others.

Dhananjai Bagrodia: So I'm just trying to understand, let's say, MDF, as you've seen prices decrease and imports increase. At what level will it be that where other players will start like either maybe shutting down or make sure the prices don't fall at a certain range and not discount it anymore. Because if we have a cost advantage, at least then are safeguarded on the downside.

Sanjay Agarwal: You're talking about MDF. Are you talking about MDF?

Dhananjai Bagrodia: Yes.

Sanjay Agarwal: So in MDF, we, as I told you, we don't have much cost advantages. And smaller guys have the advantage of the personal connect with the dealer and all of that. So they will do a little better or they are able to supply 5%, 6% shipper and their profits and all of that are not there in the public domain. So we really don't know whether they are hiking -- and you see we must understand that all these small manufacturers in North are using a daylight hot press technology, where they can manufacture only thicker grade MDF.

They cannot manufacture thinner grades. And we give 3, 4 manufacturers who are into quality press, we can manufacturer a better quality, and we can also manufacture the thinner grades. So that is where the advantage we have. So anybody who wants to buy all these thicknesses, so we have a better advantage. But if you are talking of a cost advantage, I don't see any cost advantage as far as MDF is concerned.

Keshav Bhajanka: I'd just like to add one point here. You see, when you setup a capacity, to utilize that capacity is a subject altogether, right? It does not -- you just can't setup a plant and hope to run it within a year. But in the case of Century, we are able to run our plants to capacity not faster than others. So that gives us economies of scale as far as our overheads are concerned. So that does become a cost advantage compared to anybody else in the market.

Moderator: We'll take the next question from the line of Mohit Agrawal from IIFL.

Mohit Agrawal: Sir, my first question is on the plywood business. So if you could give some comments on the industry demand, especially after the recent price hike in late December, early Jan? And within our portfolio, the mix between the premium products like Prime and Architect Ply versus Sainik? In the last few years, how has that mix improved towards Sainik? I remember you have said earlier, it is about 30% about a couple of years back. Is that -- has that Sainik ratio improved?

Sanjay Agarwal: The exact ratio, I do not have right now. And we have not -- never shared, I think. This 30%, I don't know from where it has come. But I must tell you that we are working that we must grow in our premium segment also, the percentage may be small. So we do not allow it to go down at all under any circumstances because that is where the profit lies. And the growth will actually come from the Sainik segment, where actually our growth is excellent and whether it was last quarter or December or -- things are looking up a little more than this. I don't think the numbers are -- we never have discussed it, what is the percentage.

Nehal Shah: So just to give you some more color to what MD added. I think as far as value addition is concerned, if you look at Club Prime, which is a key segment, that continues to grow. Obviously the growth rate has been lower. Within Sainik, one important thing one should note is that while we are considerably growing faster in Sainik, the growth is now coming much, much faster from Sainik 710 than Sainik MR. So despite the fact that we are selling more Sainik, our margin doesn't get distorted much because even within the Sainik segment, we are moving on to value addition with selling more of 710 of our Sainik MR. And that's how we have been able to protect our margins as well at the same time.

- Mohit Agrawal:** And sir, on the -- on your earlier comments about timber availability, if I hear that correctly, you mentioned that timber prices could be elevated for about a year or 2. Is that correct, sir?
- Sanjay Agarwal:** You see, this is a cycle. I think Sajjan, he is there. I think he is a better person to comment on this subject. Sajjan?
- Sajjan Bhajanka:** Actually, I could not follow the question fully.
- Sanjay Agarwal:** Prices of timber have increased and then that may stay for some time because it's a question of a cycle and ultimately it will come down, but not in a very near future. His question is, how much of it is true. that is what he wants to know. I think you have a better perception about the plantation.
- Sajjan Bhajanka:** Basically the prices are going up of timber, and it will continue going up some more because the year -- 5 to 7 years back, the plantation activity at its lowest and that time there was [inaudible 0:38:27] and the prices were highly subdued. So farmers shifted to other cash crops. But in the last 3, 4 years, things improved and there is good demand from all the segments for the lower growth and plywood and MDF, so the higher growth what I'm seeing. So the [inaudible 0:38:55] plantation is going on. So say, in next 2, 3 years, there, it would be balanced, there will be like meeting demand and supply.
- And I think that will stay for a long, long period because both things are maturing, plantation is maturing and industry is maturing. And now one thing is clearly known to everybody that the Indian spanning industry now will be fully dependent on plantation timbers, MDF, particle board and plywood. So this is really things will mature. And there is, of course, expansion in both the activities, plantation and as well as the plywood manufacturing, both are moving in a very rapid pace upward.
- Mohit Agrawal:** So sir, should we work with -- on the margin, should we work with a 12% to 13% margin for the next couple of years? Or do you think that...
- Sanjay Agarwal:** Yes. Yes. I think what in between due to certain things, the global disruption and other things, so chemical prices and everything increased. But prior to that, we had good inventory of all the chemicals and cores and everything at the earlier rate. So in between, there was a good margin because of low cost of the inventory, and particularly the raw material, whereas the prices for the finished product improved substantially. So the improved prices are maintained. And now what -- so like the timber prices are going up, chemical prices are coming down. So now things are stabilizing. And this present -- our forecast, I think, only relayed for next 2 years. And now our growth will come from the volumes, it will mainly come from volume. The margin would remain more or less constant.
- Moderator:** The next question is from the line of Nikhil Agrawal from VT Capital.
- Nikhil Agrawal:** Sir, I wanted some help on the guidance, I actually didn't get it clearly, for FY '23, revenue and margin guidance? If you could repeat it again, please.

- Sanjay Agarwal:** Yes, sure. So what we are now guiding for is, in plywood segment, we maintain our earlier guided growth of 15% volume and 20% value. In laminate, instead of 15% and -- 15% volume and value, which was guided earlier, we now guide for 5% plus volume and 15% plus value. In MDF, what we were guiding earlier was 20% plus, and that was largely because of our expectation of the Hoshiarpur plant, the brownfield expansion kicking in, which was expected to be earlier. Now with that getting delayed, we expect a 5% plus volume growth for this year and 15% value growth for the year. In particle board, because of import prices hitting the southern region and thus demand getting hit. We're expecting flat volumes for this financial year and 12% to 15% in terms of value growth.
- Nikhil Agrawal:** And sir, on the margins?
- Sanjay Agarwal:** The margins in plywood, we are conservatively guiding for 12% to 13%, sorry, 12% to 14% versus 13% to 15% earlier. Laminate, 13% to 15% versus 14% to 16% earlier, MDF and particle board at 20% to 25% versus 25% plus earlier.
- Nikhil Agrawal:** Sir, any reason for the laminate margin revision? Is it because of unorganized players? Or is it because of chemicals, the raw material prices, anything?
- Sanjay Agarwal:** No, as far as prices are concerned, I think that the chemical prices will more or less offset for the paper prices, which have been trending higher. However, it's more to do with the operating deleverage where the growth has come down to some extent versus what we were growing earlier because of the competitive intensity increasing. I think that's the only case. Otherwise margins are pretty much there and there.
- Nikhil Agrawal:** And sir, on the MDF imports, like are we seeing any like tapering down of imports in the second half of January? Like did we see imports going down in the second half of January or something?
- Sanjay Agarwal:** So if you look at the data, which has come in October, was around 18,000 CBM, which was imported, November was 21,000. December, it has got tapered down to 18,000 again. Jan data still not out, probably will be out in next 3, 4 days. So I think intensity still remains the same around 18,000 to 20,000 CBM, which is being imported regularly.
- Moderator:** The next question is from the line of Praveen Sahay from Prabhudas Lilladher.
- Praveen Sahay:** So sir, first question is related to the MDF. As I can see that from the last 3 quarters, the realization were maintained. However the margin were contracted even in the last Q2 to Q3, gross margin has been also quite maintained. So can you give some colour like why the margin is contracting, but the realization, you are maintaining that?
- Sanjay Agarwal:** I think basically, I think in all our products you will see because of the rise in prices of timber. So there has been considerable hike in prices and they are affecting the profits or the margins. Going ahead, I think the prices of timber, we do not see immediate or early months or few quarters, we don't see going down, our Chairman has very clearly told. There's no other reason. Otherwise we have been maintaining our quantity a little bit here and there is different and product time and

sale and prices have not really changed till now. It may a little bit in times to come, but not much till now.

Praveen Sahay: And the next question is related to the laminate. There also I can see that the realization is continuously increasing, while the volume is going down. So you are saying there is a competition from the unorganized is increasing. So competition is coming into like a higher grade or something? How to read these numbers actually?

Sanjay Agarwal: Actually for us one and only which is our highest grade production is the profit driver. In the one on one segment we will get pressure, but the increase in pricing that you're referring to is primarily due to raw material cost increase, this we will pass on to the market. However, a reduction in margins in Q2 are sustained in growth of our one on one segments, which we are working on right now. And hopefully within next quarter we will be able to come with the cost.

Moderator: The next question is from the line of Arun Baid from ICICI Securities.

Arun Baid: This is for Sanjayji. Sir, in MDF, the industry was lobbying for antidumping duty. So, can you just tell us like how is the situation there? What do you expect? And if at all, when?

Sanjay Agarwal: You are with us actually, you are wishing us all the best. We are trying our best actually, but you know how things are. And we were expecting that on furniture actually the PLI will also come, and there were a lot of talks in the [inaudible 0:47:57]and even this time, still the talks are there that furniture will be included in the PLI. Furniture is included in PLI, then there will be a huge push to use of MDF in furniture in the country.

Management: There is one development, Sanjay, there is -- we from the tribunal we got a favourable order because last time antidumping duty was approved. But it was turned down by the financial ministry. So the tribunal has ordered and requested finance ministry to relook into that because finance ministry, neither they rejected, nor they approved. And there will be a specific time period of 3 months to notify the reason of antidumping and [inaudible 0:48:59], due to no action from finance ministry.

So the tribunal order to finance ministry to relook into that and review the situation. And apart from that antidumping request from the industry, almost ongoing for all the things, again, the hearing will take place for a different time period. And this will go on. But we have seen now Government of India very, very reluctant to impose antidumping very regularly.

Arun Baid: And sir, second thing was with regards to your guidance, which you mentioned in case of MDF at 20%, 25% as sustainable. So my question here is, this is at what realization? So your current realization blended was about INR 34,000. So -- which obviously is a mix of your plain and pre-lam. But when you say 20%, 25%, it's broadly what? Should we look at this realization and into ballpark 20%, 25%? How should we look at that number? Because my view of looking at the industry is that you should look at EBITDA per CBM because your margins may change if a realization do change. So when you think of the industry, how would you look at that?

Sanjay Agarwal: Coming to your question on the realization front. So we see our realization staying between 32,500 to 34,000 range, considering the value mix what we sell in the market today. So if the realizations tapered, then we believe our margins of 20%, 25% should not be a problem. So it's more to do with the product mix, which, to us, I think that should remain steady. And since we are more on the northern side, we are a north based company at this point in time with a factory only in north. So the more we are like well-versed with what the imports do in the southern region or in the western region to do so.

So I think until the time the new capacities come on to play, I think we are more or less confident of achieving 20% to 25% margins at this point in time.

Moderator: The next question is from the line of Bhavin Rupani from Investec.

Bhavin Rupani: Sir, we understand that India generally imports plain MDF and particle boards. So can you please give us some sense on the current landed cost of both MDF and particle boards versus domestic prices?

Sanjay Agarwal: I think in particle board, now we are practically equal to the landed cost of particle board from imports. So I don't see any downside as far as the particle board is concerned for that. But in MDF, yes, there is a difference. But because we are mainly north and for, say, next one year time, we can say we are in north and to take this and we have to north -- it's a low-value product and it's a costly transportation within India through road.

So the effect of the prices of import is not as high as it is in south. So whatever declarations we are giving now, this is about 20% or 20% to 25% for MDF, I think we will do this for the Q4 now. And maybe by that time, we'll be more clearer.

We are speaking with many people to understand their cost actually, at what price can they actually sell, what is the price they can go down. But I have a silver lining here, actually. I believe from reports that China is really operating at a very low demand at the moment and the demands have not opened up because of their own internal issues. But it has been told to us that China is going to open up within the next few months. And the particle board or the MDF, whichever is being dumped in India right now at the moment, may not be so high and the prices also may not be so low. But then, again, these are only expectations and huge [inaudible 053:36] manufacturer or people we talk to, it may not be very, very authentic.

Bhavin Rupani: As far as the cost is concerned, ours is one of the lowest cost of production in the whole world. And actually if you compare to China, Vietnam and Thailand, the -- all the countries, our cost is the lowest. So that way, we don't have a long-term challenge. And another thing is that it is mainly Vietnam and other things due to the China factor, they have a lot of inventory. And basically they are dumping this thing at a lower price. And in particle board, there is a very good case for antidumping. So maybe you can move...

Moderator: The next question is from the line of Achal Lohade from JM Financial.

- Achal Lohade:** With respect to the delay in the Hoshiarpur plant, what is the reason for this delay? Is it the availability of the equipments, labour or is just...
- Sanjay Agarwal:** No, no, it's very simple, very, very simple. The equipment supplier has done all the mischiefs other one day Keshav has seen bought them and shown and Keshav had to threaten them practically that we are now going to newspaper and publicize what they were doing to us. Then only they got back to...
- Actually the machines and their technicians, they were supposed to come from China. And the [inaudible 0:55:40] Chinese people in India is still continuing, Government of India not allowing Chinese technicians to come to India. So they have taken some people from Malaysia send them China, Malaysian passport, so they have come to commission our plant. So this main delay due to that. But the good thing is that trial production already we have taken and the trial production is going on now and they're really picking up. So commercial production would be commenced maybe very soon.
- Achal Lohade:** No, because why I'm asking is if the leading player like us is facing a challenge in commissioning a brownfield. I'm just curious, the kind of capacity we are imagining the timelines, could there be a substantial change to those timelines?
- Sanjay Agarwal:** But it is still, even after this delay, it has been commissioned within FMCG, because -- and there is another challenge. It was in the existing plant, without disrupting the ongoing production side-by-side with the existing plant, this -- the whole new plant, in the same shed, it was erected and now the plant production has already been commissioned. The things we initiated by the end of last January. So within a year we have erected the plant and the trials, everything, in spite of other delays due to the non-availability of 10 people from China for commissioning the plant.
- Management:** Just one addition here. You see, for Andhra, we are taking our machinery from Germany. We are not taking our machinery from China. So that becomes a safeguard also because as you know, in this existing capacity in Hoshiarpur, the main delay was due to the factor that Chinese engineers couldn't visit India and then we are to get engineers from other countries from supplier. In the case of Andhra, our machinery is from Europe. So here that same challenge will not be taking place.
- Moderator:** The next question is from the line of Rajesh Kumar Ravi from HDFC Securities.
- Rajesh Kumar Ravi:** My question pertains to the MDF. I just wanted to understand which of the cost elements for Indian players put us at a disadvantage versus imported MDF landing at ports? Sir, in the MDF, what's my understanding is that we have a cost disadvantage versus the imported players. Is this understanding right? We means the Indian manufacturers.
- Sanjay Agarwal:** You are saying we have a cost advantage.
- Rajesh Kumar Ravi:** No, disadvantage, disadvantage. We have a higher cost of production.

Sanjay Agarwal: Cost of production over the exporters.

Rajesh Kumar Ravi: Over the imports coming in India.

Management: No, just -- Sanjay, I will try to answer. There are the main ingredients in MDF, the first and foremost is the timber, second is critical and third is necessity and fourth there's other overhead, manpower and all other things and then transportation, marketing, these all are there. So -- and comparative disadvantage against the imports like in the Southern India, the entire Southern India is surrounded by ports, there this is more glaring view and advantage otherwise in North India because...

Now like in between chemical prices drastically increased, that is gradually coming down. But the timber prices are increasing. So in that MDF, chemical component is little big and other things are more or less stable in India. And that way labour wise we are the cheapest in the world. And timber-wise, more or less at the moment, we're at par. In South India, timber is cheaper, in North timbers costlier. And the realization in north is better than south. So that compensates. So as the industry, we are like more or less at par with our counter all people elsewhere in China and other countries. And China, particularly they don't have surplus material now and timber, the MDF and particle board is not usually coming from China to India. This is coming from this Thailand, Malaysia, Vietnam, Sri Lanka, from these countries.

Rajesh Kumar Ravi: So what I understand is the pricing difference at the port, at the South India was this import versus domestic, the price difference is close to 10% to 20% despite -- and I would assume these suppliers who are exporting to India, they would also be looking at healthy margins, correct me if I'm wrong. So if they're making similar margin as -- domestic player. And if the price is different...

So what I'm saying, sir, South timber prices are lower versus north. So we are competitive. India is competitive on the timber pricing in southern markets. But despite that, the imported prices for MDF in south is at least 10% to 20% differential versus the domestic supplier's price. So -- and even the exporters to India would be making some profitability. So where are the -- why should this pricing difference sustain? What is -- why do -- no, why should our margin be...?

Sanjay Agarwal: No. There is one advantage to us, because particle board go 100% to OEMs, and there is no brand value. So they just see the product as a commodity and it is being used. But MDF, most of it nowadays goes to the retail market through the private dealers and new things and here the branding has a role to play because now we are catching at least 8% to 10% better sales in comparison to the imported products. And more or less same is with other [inaudible 1:03:34] they're also fetching better price. So that advantage would remain with us. So that's an advantage there in MDF.

Moderator: Ladies and gentlemen, due to time limit, we will take last two questions. Request to all the participants to please limit your questions to two. We'll take the next question from the line of Nikhil Agrawal from VT Capital.

- Nikhil Agrawal:** Sir, I wanted to know like how is the demand situation in – then till now in Q4 like in Jan, Feb till now?
- Sanjay Agarwal:** The demand situation of what -- which product?
- Nikhil Agrawal:** Across all segments.
- Sanjay Agarwal:** Demand is more or less stable. It is stabilized, is picking up because in last 5 years, our capacity more than doubled, but the entire production of all the people had been pending, like -- and the import is increasing during this year. In spite of increased import, we are happy to serve our whole product. Plywood, yes, in between, there was some challenges. But as far as Century is concerned, our volumes are constantly increasing. But when we see figures of some other people and more particularly unorganized. So there are some pressures. But as far as Century is concerned, we are sure that our volume would continue to improve.
- Nikhil Agrawal:** And sir, will you be looking at MDF exports; one, exporting MDF once the south plant comes in?
- Sanjay Agarwal:** Sure. Because that will be needed. From south we are planning more two things domestic market as well as export.
- Moderator:** The next question is from the line of Praveen Sahay from Prabhudas Lilladher.
- Praveen Sahay:** The only one question I have related to the MDF. And just a clarification. From the Q-o-Q, if I look at the gross margin contracted 100 bps, whereas your EBITDA margin for the MDF contracted around 300 basis points. So what exactly from the gross margin to EBITDA in between has increased, which lead to a correction in the EBITDA margin?
- Nehal Shah:** So the EBITDA margin contraction was higher than the gross margin contraction. Now that has to do with the advertisement spend as well, which has gone up almost significantly compared to corresponding quarter of the previous year.
- Praveen Sahay:** And you will maintain those numbers for a way forward.
- Sanjay Agarwal:** So generally what we do, the A&P spends are generally higher in the second half of the year. So then the trend generally remain the same. But this time it was higher than what we did corresponding quarter than previous.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sanjay Agarwal for closing remarks. Thank you, and over to you, sir.
- Sanjay Agarwal:** Yes. Thank you, everybody, for joining us on the call. We will be back after the full year numbers. Thank you so much.
- Management:** Thanks, everyone.



Century Plyboards India Limited
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Moderator: Ladies and gentlemen, on behalf of SKP Securities Limited, that concludes this conference.
Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.