

Century Plyboards (India) Limited

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Dear Sir(s)/ Madam(s)

Sub: Transcript of the conference call for Audited Financial Results for the Quarter and year ended 31st March, 2023

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 Tuesday, 16th May, 2023 for Audited Financial Results for the quarter and year ended 31st March, 2023.

This is for your information and record.

Thanking you,

Yours faithfully,

For Century Plyboards (India) Ltd.

Company Secretary

 **CENTURY LAMINATES** |  **CENTURY PLY** |  **CENTURY MDF**

PRELAM BOARD | VENEERS | PARTICLEBOARD
EXTERIOR LAMINATES | DOOR |  | PVC BOARD | CFS





“Century Plyboards India Limited Q4 FY '23 Earnings
Conference Call”

May 16, 2023



**MANAGEMENT: MR. SAJJAN BHAJANKA - CHAIRMAN
MR. SANJAY AGARWAL - MD AND CEO
MR. KESHAV BHAJANKA - EXECUTIVE DIRECTOR
MS. NIKITA BANSAL - EXECUTIVE DIRECTOR
MR. ARUN JULASARIA – CFO
MR. NEHAL SHAH - CSO AND HEAD (INVESTOR
RELATIONS)**

**MODERATORS: MR. DEEPAK AGARWAL - PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of Century Plyboards India Limited hosted by PhillipCapital (India) 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. Deepak Agarwal from PhillipCapital (India) Private Limited. Thank you, and over to you, Mr. Agarwal.

Deepak Agarwal: Thanks. Good afternoon everyone. On behalf of PhillipCapital (India) Private Limited, I welcome you all to Century Plywood India Limited Q4 FY '23 Earning Conference Call.

Today we have with us Senior Management represented by Mr. Sajjan Bhajanka - Chairman, Mr. Sanjay Agarwal - MD and CEO, Mr. Keshav Bhajanka - Executive Director, Ms. Nikita Bansal - Executive Director, Mr. Arun Julasaria – Chief Financial Officer, and Mr. Nehal Shah - CSO and Head (Investor Relations).

I will hand over the floor to the management for their opening remarks, post which we open the floor for Q&A. Thanks, and over to you, sir.

Sanjay Agarwal: Thank you, Deepakji. Thank you. And thank you for hosting this call also. Gentlemen, thank you everyone for taking your valuable time out for attending the Q4 FY '23 Century Plyboards Investor Conference Call.

I am Sanjay Agarwal, MD of Century Plyboards India Limited. I have alongside me, Sri Sajjan Bhajanka - Chairman, Mr. Keshav Bhajanka, and Ms. Nikita Bansal - Executive Director, Mr. Arun Julasaria - CFO, and Mr. Nehal Shah - CSO and Head of Investor Relations.

I presume that every one of you would have gone through our numbers in detail. Let me still brief you on the key highlights of Q4.

Despite the challenging demand scenario and sustained inflationary environment, CPIL managed to achieve the highest ever quarterly revenue of 962 crores, EBITDA of Rs. 176 crore, PAT of Rs. 113 crores for Q4 FY '23. Despite the sustained input cost pressure in timber prices in particular, CPIL's overall gross margin were higher by 220 bps on quarter-on-quarter basis to 34.2%. The company's EBITDA margin too were higher by 340 bps quarter-on-quarter to 18.3%.

The strong operational performance in Q4 was largely driven by Plywood division, which registered strong volume uptake in premium segment along with the Sainik segment, of course, thereby driving superior product mix and higher realization quarter-on-quarter.

Our Plywood and Laminate segment revenue recorded 17.5% and 1.6% quarter-on-quarter growth, while MDF and Particle Board segment revenue degrew 3.5% and 3.3% quarter-on-quarter for the quarter. Despite the surging timber prices, plywood EBITDA margin improved 42 bps quarter-on-quarter, largely driven by superior product mix quarter-on-quarter and operating leverage.

Laminate margins excluding BCG costs remained steady at 15.7% in Q4, while MDF margins gained 460 bps in Q4 driven by softening of chemical prices and Forex gains. Particle board margins were down 230 bps Q-on-Q driven by higher timber prices and lower realizations.

Timber prices continue to remain at elevated level, while chemical prices, particularly phenol, melamine, U.S regime have softened a bit in last three, four months and are likely to further soften in near terms. Price increase taken in Q3 FY '23, Q3 and Q4 FY '23, plywood 2% price increase across all products except Sainik in January '23, laminate nil, MDF particle board nil.

Our MDF Brownfield expansion at Hoshiarpur commenced operation in March '23, and we expect the plant to see substantial ramp up in production over the next few quarters. Our South MDF CAPEX is running as per schedule and is expected to come on stream in second half of FY '24.

While our first phase of Greenfield laminate manufacturing unit in AP is expected to become operational in November '23, the Greenfield plywood project is likely to come on stream by Q4 FY '24. The upcoming Greenfield particle board project in Chennai with a revised capacity of 800 CBM per annum with an investment outlay of 500 crore is expected to come on stream by Q4 FY '25.

Our working capital stands reduced by two more days to 50 days in Q4 FY '23 on a sequential basis. FY '23 working capital days down to 53 days from 63 days in FY '22. We remain a net cash positive company with net cash position of Rs. 145 crore as on 31st March 23. Our Q4 ROC stood firm at 30.33%.

Despite the challenging business environment, the segment wise growth guidance is as follows. Plywood, 13% volume and 15% value growth. Laminate, 25% volume and value growth. MDF, 30% volume and value growth. Particle board, flat volume or maybe some degrowth in revenue. We maintain our near-term margin guidance for our business segment as under plywood 12% to 14%, laminate 12% to 14%, MDF 20% to 25%, particle board 20%.

Thank you, ladies and gentlemen. I now open the floor for question and answer.

Moderator:

Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Pranav from Equirus Securities. Please go ahead.

Pranav: Sir, I just wanted to understand on the plywood side. So, what drove the growth in plywood? And are we actually seeing market share gain coming in plywood, let's say, from the unorganized side? And even on the realization front, you have performed well in the segment. So, if you can throw some light on how the premium plywood had performed? That was my first question.

Nikita Bansal: Thank you, and I will answer this question. So, see, plywood, the growth that has come because of the growth that we have been driving in Sainik as well as in the Century. We said in the past as well that both products will continue to grow, and Sainik, the growth will be faster because there is, it's playing in a larger market because it's the Delhi is about 40% to 45% for Sainik which is between Rs. 80 to Rs. 100 plus, whereas Century plays in a smaller market. So, but both will continue to grow.

We have been doing various strategies over the past few years. And in Q4, definitely, we saw this, all these strategies finally coming to fruition, and we saw a good performance, and we hope to continue with this performance even in this year, but definitely not with the type of growth that we saw between Q3 to Q4. That was a very big jump, because overall Q3 is a lower quarter for us because of festivity etc., everything. So, Yes, I hope I have answered your question.

And in terms of EBITDA, because you have to realize that our fixed costs remain the same and because we did exponential sale, we were able to give a very good extra for just this quarter, but it is not a sustainable EBITDA because seasonality comes into play. And we continue to maintain that we are going to try and deliver 12% to 14% EBITDA. So, as you know, the product mix of premium has improved in Q4. We hope that this continues even this year.

Pranav: And then my second question was related to laminate. So, what kind of strategic level changes you are making in laminates, let's say, in order to grab incremental market share? And are you also looking at now going after export opportunity as well?

Keshav Bhajanka: Definitely. You know, in laminates, we had a very tough year, and this has enabled us to introspect and look at what are the growth levels that we should be activating. So, we have already, as you correctly mentioned out, looked at a huge export market, which we are not catering to due to a lack of sizes, and we have taken the decision to go for two new sizes, 14 by 6 and 10 by 4. These larger size presses will be commissioned along with our Andhra unit which is going to add to our overall turnover and export substantially.

Alongside that in the domestic market, we are seeing those trend that are selling branded product to Plywood, and the fact that it has catered to the belly of the market. Similarly, in laminates, we are now launching or we have the launch this month launch Sainik laminates, and we are sure this will be a growth lever for us going forward.

Alongside the same, we are also launching our new catalog next month which is going to be industry first and has a number of innovations. So, all of these put together, we are confident of robust growth for the current year.

Pranav: And sir, my last question was related to MDF. So, what gives you the confidence that you will be able to grow at 30% on volume and value in FY '24? So, basically, some import challenges are impacting the industry, though the overall consumption continues to remain good. But this 30% kind of volume growth implies that you are expecting some market share gain. So, if you can throw some light on how this volume growth?

Sanjay Agarwal: Yes. You see, you have seen that in last six months, the international prices have come down. And the particle board industry has been badly affected. The particle board prices have gone down. So, you have seen the impact in the results also, but there has not been any change as far as MDF industry is concerned. The prices have gone down, but the MDF industry in India has not buzzed even 1%.

The only change I believe is actually in times to come. Our product has already come into the market, our expanded capacity. Green Plywood's new capacity has come into production. I think by July or by August I think Action's plant will come into production, and there may be one or so I think some small plant also will come into production. So, all these are going to throw a challenge, but because we had the capacity, and the market is growing by 25% per annum, so that is where actually because we have the capacity, everybody else does not have the capacity, you know, available to them.

So, that is why I believe that we will be able to grow by 30%. And you know, I expect that by the end of this year, the financial year, we will be able to utilize the full expanded capacity, but the average capacity utilization I think will be giving us this growth of around say 30%.

We are quite confident. Otherwise, you see, we are a person. You see, you have seen that we are really not very too bullish a person. We are quite conservative in our approach usually. About this, I believe that yes, we will be able to, maybe in some quarter here or there, that might happen, but yes, we will.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: I think the panels was going through a bad phase. Plywood performance actually gives a lot of motivation. Firstly, one clarification on plywood. So, there is no capacity increase done in fourth quarter, right?

Sanjay Agarwal: You see, we have been continuously improving our processes and few, you know, gap machines in our existing plans, and that's how we still have capacities available in our existing plants. But yes, now a big expansion in Hoshiarpur has been taken. And presently also, we have some capacity. Even for this year, we are absolutely ready. Whatever growth is coming, we are ready with that capacity within our existing plants.

Now this is a continuous, you know, plywood is not a very capital-intensive project. So, this is a continuously going on project in our company. This investments probably we at times we do not even plan in a big way and some small machine or some compensating machine is installed in plants and we get that benefit.

Rahul Agarwal:

So, what I wanted to understand is the explanation given for plywood performance was more because of the sales mix was more from a demand perspective, was more because you were pretty strategic in terms of balancing out Century and Sainik both put together. So, I am assuming that the capacity what you had at start of January was not higher than what you had in 3Q, right? And so the entire volume grow whatever we have seen is come from organic, and there is no debottlenecking capacity addition is happened in plywood. Is that correct?

Nikita Bansal:

Yes. So, even if you have seen Q3, we were not at 100% capacity utilization. So, we have a capacity that is already installed which we are utilizing. We also have a very strong STM, which enables us to be able to cater to such spikes in demand. So, because of that we did not have an issue with respect to capacity.

We are definitely taking expansion within our existing plants right now. We are taking expansion, for example, our Chennai plant is going through a massive expansion, which will be probably ready by the end of this year. Hoshiarpur is a completely new setup that we are having. So, Yes, I don't think, you can say capacity remains the same. Utilization has improved.

Rahul Agarwal:

And on the price hike, you mentioned 2% from January except Sainik, and I think...

Nikita Bansal:

No, actually that was a mistake. Sainik also went through a price increase. Sainik went through equal price increase as Century.

Rahul Agarwal:

I thought last quarter you guys mentioned 4% in January for Sainik MR. That was only in South India. Isn't that correct?

Nikita Bansal:

So, South India, there was, so there are two products in Sainik. One is Sainik 710, which is the waterproof product, and then there is Sainik MR, which we outsource. So, Sainik waterproof is in-house. So, in January we took a price increase in all our product range. In South, especially in the Q3, we had to take one because of raw material pressure that we face particularly in South, and in South we had not taken a price increase since a very long time because South never came under a price pressure. North had come in a price pressure last year massively. So, we were able to balance out the price there.

Sanjay Agarwal:

It was my mistake actually. What's written here is very clear. Plywood 2% price increase across all products except Sainik MR. That was my mistake that I did not read out the word MR. So, that is how it got you confused.

- Rahul Agarwal:** No problem, sir. Thank you for that. And lastly on laminates, again a clarification. So, the Andhra first phase is going to be larger sizes more for exports. You mentioned about, you know, how you want to grow the volumes for next year, but just the clarification on the margins. Sir, you mentioned 12% to 14% is the band you look for fiscal '24. Is that correct?
- Keshav Bhajanka:** Yes. That is correct. You see we are launching a second brand, and initially, it can be ramp up to say 1 lakh sheet plus per month. There will be a lower margin in the Sainik brand. So, for this year, our guidance is slightly lower, but this is short term. I think for next year onwards, we will again be back to the same 14% to 16% trajectory.
- Rahul Agarwal:** And lastly on the CAPEX, there is some revision. So, just to get this right, particle board was earlier 1200 CBM. Now it is 800, but pretty much the CAPEX remains the same at 500 crores. Is that correct?
- Keshav Bhajanka:** Yes. The CAPEX was 550. You see, in these plants, just by reducing the type slightly on clicking the sides slightly, you will not get too much of a savings effect, but after a lot of discussion, after the current inflation environment, after studying what the market requires, we have fixed the size of 800 meters. We feel that this is going to be the best for us in the long term.
- Moderator:** Thank you. The next question is from the line of Venkatesh Balasubramanian from Axis Capital. Please go ahead.
- Venkatesh B.:** Can I request you to repeat your guidance once again? I seem to have missed a few numbers. That is the first question. The second question is can you give segment wise what was your capacity at the end of FY '23?
- Nehal Shah:** Yes. So, for the guidance, plywood we are saying 13% volume growth and 15% value growth for the year. Laminate, 25% volume as well as value growth. MDF, 30% volume and value growth. Particle board, flat volumes and a little bit of decline in revenue. And in terms of margins, we are guiding for 12% to 14% in plywood and laminate division. MDF, 20% to 25%, and particle about 20%.
- Venkatesh B.:** The second thing was on the capacity which you have. If you could just say what is the capacity at the end of FY '23? And what is the capacity increase you're expecting in FY '24 and '25 in each of the segments?
- Nehal Shah:** So, FY '23, plywood capacity would be close to around 3,30,000 CBM. Laminate is 8.8 million sheets. MDF is 3,13,500 CBM, and particle board is 72,000 CBM.
- Venkatesh B.:** MDF can you repeat, please?
- Nehal Shah:** MDF is 3,13,500 CBM. 3,13,500 CBM.

- Venkatesh B.:** And particle board you mentioned?
- Nehal Shah:** 72,000 CBM.
- Venkatesh B.:** What is the increase which is happening in each of these segments over '24 and '25? That is the last question.
- Nehal Shah:** So, '24, we will have, as Nikita also said, we are having capacity enhancements in a few of our existing factories. So, that will add up another close to 15,000, 20,000 CBM for the year. Then apart from that, we will have the Hoshiarpur capacity, which will come in, which will throw up 60,000 CBM for the year, which will come in by the end of this year. Laminate, the new export presses which will come in which will add another close to 8,55,000 sheets per annum, and MDF, as you know, the Greenfield capacity in South will add another 3,13,500 CBM in south of India.
- Moderator:** Thank you. The next question is from the line of Girish Chaudhary from Avendus Spark. Please go ahead.
- Girish Chaudhary:** Firstly, on the MDF, if you can give some color on the imports currently, and in terms of price discount versus imports if one compared with organized, where are we? That is the first half of the question. The second half of the question is again on MDF. So, if I look at your guidance, the pricing assumption is essentially flattish for FY '24, but in light of the capacities which we have been talking of on imports, how confident are you of maintaining a flat pricing?
- Sanjay Agarwal:** So, MDF as far as the import is concerned, yes, about 20,000 cubic meter of MDF is getting imported. 20,000 to 30,000 cubic meter is getting imported in India right now. But you will see and we are also watching that there has not been any impact as far as the prices are concerned in the country, and there is not much of a pressure. So, that's why we maintain that there will not be a price decline or price cut as far as the immediate market is concerned.
- But as and when, you know, the new plants will be coming up, our plant will come up, which may be the end of this year. Action's plant will come up. Green's plant has already come in. So, all these will create some challenges. So, we will have to see how it goes, but I really don't see because this market is growing by 25%, I really don't see big challenges. But yes, you are right in a way, that yes, there might be some challenges in the market, and we will decide that then when things come. So, we see as far as the MDF pricing is concerned, and I understand very recently the international prices have gone up by 7% again in last about a month's time.
- Your second question was?
- Girish Chaudhary:** So, essentially on the pricing outlook only, but what we have already seen is that while some of the domestic organized players including you have been able to maintain prices, but that has also come at the cost of volumes, right? We are seeing a lower volume trajectory for some of you.

So, but incrementally, like you said, you have a 30% volume growth guidance. Likewise, some of the other companies also have a strong volume growth guidance. So, beyond a point, just wanted to understand that at what point where pricing decision will have to come in?

Sanjay Agarwal:

You see, as far as volume is concerned, I really don't see that till March there was an effect on volume. April usually a month, you know, the whole year people have worked. So, in April somehow there is a psychological thing with all the salespeople. They relax themselves, and they go and enjoy. They do their annual meetings etc. So, all those things happen. So, April may be a little bit of a concern everywhere. You can see in the whole industry I think the same thing will happen, but till March, there was no volume issues.

And in coming time, you see, I don't see because, you know, most of the MDF manufactured in India is totally consumed in India. So, I really don't see much of a problem as far as the volume is concerned. But yes, in a way, you are right. So, much of capacity is coming. Yes, there will be some challenges, and challenges will be there, isn't it?

Girish Chaudhary:

Secondly, I also see, just a clarification that your MDF CAPEX for the South plant has seen an increase of around 100 odd crores. So, any reason for the same?

Keshav Bhajanka:

Yes, there are a couple of reasons for the same. First, of course, is the overall inflation environment. The cost of a number of commodities, steel, cement etc., have gone up substantially.

Secondly, we have redesigned the unit so as to get a lot of economies of scale when the second line comes up. We have taken some costs in case one which will reduce the cost of the second line as and when it comes up. So, because of this, this cost has been front loaded, but in the long term, it will save us substantially when line two comes up in Andhra.

Moderator:

Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah:

So, couple of questions. First is, sir, I just wanted to check on Sainik Laminates. I think, I believe it has been launched in a few markets. So, how should we look at the positioning of this new brand? That's the first question.

Keshav Bhajanka:

You know, Sainik Laminates, the thought process behind Sainik Laminates was the tremendous success we have had in Sainik Ply. Through Sainik Ply, we have been able to enter the value of the market so to speak and gain volume traction in the category in which we were never present in plywood earlier. So, Sainik Laminates is not with the same objective, and I think the response has been fantastic, but we are taking it slow, as you correctly mentioned. We have been going market by market. We have not done it in full launch so to speak.

The reason behind this is we want to gradually scale up, and we want to ensure that there are no issues with regards to service, with regards to product etc., etc. But I think towards the end of the year, you will see Sainik really scaling up as far as laminates is concerned.

Ritesh Shah: Would it be possible to provide some color from a pricing differential standpoint and basically like historically, we have seen Sainik Ply do actually wonders for the company. So, is the thought process something similar over here as well?

Keshav Bhajanka: We are launching this in a slightly different module to the current module of Century laminates. So, while that is more of a distribution-based module, this will be based more out of a dealer module. And you know, the pricing will be very different because the margin structures are completely different, but I think that you can assume that there will be 10% to 15% pricing difference at the minimum.

Ritesh Shah: This is helpful. And my second question is on CAPEX. I think, if you could detail a little more, you indicated like the CAPEX has includes for the AP MDF plant from 600 crores to 700 crores. Is there some breakup which is possible? Or is it, are we looking at the optionality second phase of expansion which is going to be far more? I am just trying to understand it from a CAPEX intensity on a per CBM basis to make sense of the increase in CAPEX?

Keshav Bhajanka: Definitely. So, you know, initially, we had planned for a shed that was somewhat smaller. Then when we went for layout designing, when we went for the reworking, we saw that by increasing the shed area by close to 10%, 12% we could save on 30% of overall shed area considering line two. So, because of this, it was redesigned. If you look at it, the dispatch structure for this current shed of line one will take into account line two comfortably as well. So, we are looking at a cost sitting in the long term, but short term, for the same capacity that we have, there has been a cost escalation.

Ritesh Shah: And it has been a little bit of change on the particle board CAPEX as well from 5.5 billion to 5 billion. Any specific thoughts over there? That would be my last question.

Keshav Bhajanka: Yes. In particle board, you see, you need to look at the availability of timber in any particular location. We felt that a larger capacity than this would lead to an issue for us in terms of timber availability and lead to a higher overall cost of production. As such we optimized the capacity to 800 cubic meters. Of course, with this 800 cubic meters rated capacity, the objective will be to produce in excess of 900 and pass even these 1,000.

Regarding the CAPEX, as I have already mentioned, due to the overall inflationary environment, the CAPEX is higher. If the raw material prices had been lower as they were say a year, year and a half ago, the CAPEX could have been limited to slightly lower. But we will be well within the overall approved budget of 550 crores.

Moderator: Thank you. We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: My question was on the MDF. You know, given the Brownfield expansion is done 3,13,500 capacity now for the full year in addition to the new Greenfield, the 30% volume growth seems to be conservative. So, you know, does it mean that we are going to operate at 65%, 70% significantly below what we operated in, let's say, in third quarter or fourth quarter?

And second question I had with respect to market, if you could give what was the FY '23 industry volume when you talk about a 25%, 30% growth, if you could talk about industry volume as well, and apart from that, the 30% volume growth for MDF segment for FY '24 for us?

Keshav Bhajanka: So, actually with regards to the new capacity, you see, any new capacity, it's not very easy it will do 100% within the virtue of operation itself. You are correct. We are looking at 65%, 70% utilization of the expanded capacity of the second line that is coming in. The first line will be continuing at 100% plus. So, overall we will be consuming close to 50%, 60% of the expanded capacity plus 100% of the first capacity. And by next year, we should be looking at a far higher overall capacity utilization for both lines put together.

Regarding the overall size of the market, I think, Nehal can take it up.

Nehal Shah: The size of the MDF Market by the time we ended last year should be near the 2.5 million CBM.

Achal Lohade: And what would that be, Nehal, in FY '22?

Nehal Shah: That would have been close to 1.9.9 million CBM or so.

Achal Lohade: And this 2.5 will include the imports or imports are in addition to this?

Nehal Shah: No, no, that will include imports as well, which was not much because the imports came handy only after September onwards.

Achal Lohade: And the second question I had was with respect to Sainik. Can you share some more sense in terms of, you know, the mix in terms of volume value or the growth what you have seen in FY '23 in Sainik?

Nikita Bansal: So, this is the data we don't like to share. So, Yes, thank you for the question.

Moderator: Thank you. The next question is from the line of Kuber Chauhan from Anand Rathi. Please go ahead.

Kuber Chauhan: Couple of questions though I have, I mean, on sequential basis, we have seen the MDF revenue has been declined, but on margin, and if you look at margins, it has expanded. So, what has led

to that expansion? Because if you compare with our competitors, they have degrown, right? So, what has led to that expansion?

And second is on the Andhra plant, which will be coming in second half of FY '24, which is this year. So, what would be the utilization for that plant?

And thirdly, what is your outlook on timber prices right now? Because the competitors are saying that it will, you know, increase further. So, how we are looking at it? And how we are going to mitigate it?

Nehal Shah:

So, if you look at the gross margins in MDF segment, they were up by almost 400 bips, and this was largely driven by net savings in raw material cost. So, by net savings and normal cost, what I mean is the chemical costs were down. At the same time, the timber prices were higher, but even despite the fact that timber prices were higher, the savings in the chemical cost was much higher compared to timber. And hence, there was savings and there was improvement in gross margin. Then there was also a 100 bips positive impact because of Forex which led to overall 400 bips expansion in gross margins. And if you look at EBITDA margins, they were up for 60 bips Q-o-Q at 27%. This was largely driven by spurt in the gross margins.

Sanjay Agarwal:

Regarding the timber prices, I will request our Chairman is online. So, if Sajjan could expand a little bit on that?

Sajjan Bhajanka:

Yes. As requested by Sanjay, actually in Century Plyboard, from the very beginning, we have supported increase in the timber price, not like other people because we feel that farmers would only grow timber when it is giving them better yield in comparison to the cash crop, and as the demand is increasing, we should support the like growth for tree and the plantation. So, we are already open in increasing the price of timber. We are giving more price.

We started our Hoshiarpur unit by paying 3,000, Rs. 3 kg for the timber. Now we are paying Rs. 6.50 per kg of timber. So, I think we should continue. And now our other players in the industry have also realized that unless we give a competitive price, there won't be sufficient plantation. So, that is the thing, and it is not only in India. Everywhere is, in Vietnam, in China, everywhere price of timber is increasing. So, I think there would be balance and which realize better price for our products from the market.

Kuber Chauhan:

Sir, how do you look at FY '24 regarding these prices? Is it going to...

Sajjan Bhajanka:

Now because there was a very average increase in the timber prices for some time in future to come, this will continue at these levels only. And now there is huge plantation taking place in UP, in Southern India, in many other parts of North India. So, I think for time to come, there demand and supply will be quite balanced.

Kuber Chauhan: And thirdly, I wanted to understand regarding the Andhra plant which will be coming in second half. So, what would be the utilization in the second half? And going forward in FY '25, what would be the utilization?

Keshav Bhajanka: You see when we say second half of the year, we are looking at perhaps late Q3 or mid Q4. Now in either of these scenarios, we don't really get much time to run and ramp up the capacity there. So, any meaningful impact from Andhra will only come from FY '25 onwards.

Kuber Chauhan: And the peak utilization in which year we can expect?

Keshav Bhajanka: The peak utilization should come at 80%, 85% in FY '26 and higher in FY '27.

Moderator: Thank you. The next question is from the line of Mohit Agarwal from IIFL Securities. Please go ahead.

Mohit Agarwal: So, most of my questions have been answered. Just one follow-up on a previous question on Plywood industry. So, in the light of increased timber prices, could you give some color on how the industry growth has been in FY '23 and in the past couple of quarters especially? And how has this unorganized segment been dealing with this timber price increase? So, how have been their utilization level? So, any color on that if you would give? The bottom line what I want to understand is that in such situations, does the top players like you have an advantage of gaining accelerated market share?

Sanjay Agarwal: Good question. You see even the smaller player, there have been few units who have closed down. But the transfer from unorganized to organized in our industry is a slow process because the interest of the dealer is very high in the unorganized segment. We are trying to now we are coming up with TVC's advertisement where we will be actually educating the customer also now. So, yes, but some transfer since we have gone into the belly of the market through our product known as Sainik, we have been able to transfer quite a bit of percentage as on today.

You see, when we started say about three, four years back, we used to see that Century Plywood was about 4.5% of the total plywood market. Today we are estimating it to be 8% or 8.5% of the total plywood market. So, you know, the transfer is, shift is happening. But yes, it's low. It's not to our expectations.

So, what was your second question?

Mohit Agarwal: I am trying to understand, you know, how is the unorganized segment dealing with this, like have their utilization gone down?

Sanjay Agarwal: Yes. So, you see, I have seen that few of them, very, very few of the unorganized segment is trying to become an organized segment in their own local districts like in local state or local districts. So, one brand has come up in West Bengal. You will find one brand has come up

somewhere in Punjab or one brand is coming up in Andhra or Bombay. So, that is what we will find.

So, all, maybe few five or ten units will become local brands. But yes, whatever price increases they took because of this timber price increases have fallen flat. They have gone back. But this will have a long-term impact. They will not impact them immediately. They will not have a problem immediately, because they have made money earlier. But yes, this will have a long-lasting impact on them.

Sajjan Bhajanka: And there are totally different this thing, price zones, price levels for the MDF and for plywood. So, plywood we need bigger like diameters, and that price is different. That is now covering around Rs. 11, Rs. 12 a kg, and plywood there are vast unorganized sector. But in MDF, I don't see a big presence of the unorganized sector. So, most of the players are in the organized sector only. So, here is the disparity in the price on the regional basis.

At the moment, the relation in North India is better, and the price of timber in North India is also better. Realization for MDF in South India is lower, but the timber prices are also much lower. So, almost 50% of the North India. In South India still we get timber for Rs. 3.50 or something per Kg. So, that is the difference because South India, the timber like plantation and agriculture tree was earlier serving to the paper industry. So, the volume is big, much larger and still the industry exists along with the paper industry. The raw material and pricing the same.

Mohit Agarwal: Sorry, sir.

Sajjan Bhajanka: The raw material for paper industry and the pricing of the raw material is more or less same. Only paper they buy debarked timber. So, where is the debarking cost and the loss in volume because your debark is added with the price.

Mohit Agarwal: This is very, very helpful, and just last bit, sir. Are there any estimates on the plywood industry growth for FY '23?

Sanjay Agarwal: This is a very, very gray area actually. So, I always certainly tell that there is no data, authentic data available as far as MDF is concerned, because there are very few units. There is authentic data absolutely available. As far as laminate is concerned, still there is some data. Particle board, yes, there is some data, but plywood is a totally gray area. But we estimate that yes, it's growing at about somewhere between 5% to 10%.

Sajjan Bhajanka: Because our at the moment, the total Plywood volume is around 10 million cubic meters, whereas China's is 200 million cubic meter. And in population, we have almost matched China. And our middle-income segment, upper middle class, lower middle class are expanding very fast. So, when housing is the thrust of the government and the country, so I am very optimistic about a very robust growth, and gradually growth will pick up.

From now, the growth of plywood, even MDF and particle board, all will grow in tandem. And at least I don't see any reason that presented to China at least we shall not reach half of the present-day China's capacity in next 20 years. So, if we target a 100 million cubic meter in 20 years, then from 10 to 100, the growth has to be reversed.

Moderator: Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund. Please go ahead.

Hrishikesh Bhagat: My question is, if we look at it clearly, this year we have seen worst of the timber price inflation, and if I look at the initial part of a statement on the outlook side, clearly you indicated probably timber prices could remain stable in and around this level. So, against this backdrop, how should we see your plywood EBITDA margin guidance, which is at 12% to 15%, 14%, if I am not wrong, 13% to 15% slightly lower than what we reported even in Q4 margins?

Nikita Bansal: So, see, we have always said that we will deliver between 12% to 14%, because that's a conservative figure that we want to take. We will keep striving to do better like we did in Q4, but our guidance will remain 12% to 14%.

Hrishikesh Bhagat: And so, is there anything that makes you cautious on this thing in the sense or just wanted some insight on that?

Nikita Bansal: Sorry. I didn't understand this question.

Hrishikesh Bhagat: Is there anything that makes us cautious that we are guiding at the lower end compared to the exit margins?

Keshav Bhajanka: Hrishi, if you look at the exit margins, it has been an extremely good quarter with some very good robust volume growth. So, this is something that will not be repeated quarter-on-quarter, but, you know, definitely, raw material prices have been inflated. The hope is that they will not increase much far beyond the same as has been indicated by both the chairman and the MD. But we are taking it with a pinch of salt. So, it's better to err on the side of caution. If it does not happen, then definitely you are correct, the margin should be slightly higher. But as of now, there is no clear visibility. If timber prices remain like this, perhaps we will do better, but our guidance is 12% to 14%.

Hrishikesh Bhagat: The second question is on the similar aspect. Clearly, there will be likely to be increased plantation that was hinted by the given guidance as per the initial part of the commentary. Now when I look at say 12 to 15 months down the line, a large part of this improvement in plantation should help us in terms of that timber prices should taper down. Now do you feel that considering the ad spend and spending on brand that we had done over the last two years, will you be able to retain part of this savings in the timber cost going forward say 12 to 15 months down the line when timber cost actually corrects?

- Keshav Bhajanka:** Hrishi, you know, when we look at the overall growth in the base volume and the economies of scale that brings, definitely there should be an improvement in the bottom line. But the cycle might be a little bit longer. It might not be 12 to 15 months. It could be slightly longer because the plywood cycle is a little longer than the MDF and particle board cycles.
- Hrishikesh Bhagat:** Sorry. So, Keshav, I am not asking on the cycle front. I am talking from the point of view of the, if timber prices moderate from here on, will you be able to retain those savings?
- Keshav Bhajanka:** Yes, but you are facing that on the increased plantation that will come into availability, right? Plywood will take a little bit longer because the cycle is longer. For MDF and particle board, you are looking at four years. So, plywood, you are looking at six years plus. I am saying that once that correction does take place, we are sure that it will in the long term because tremendous amount of plantation is taking place. I mean, you drive across Punjab. You drive across Andhra, and you will see the sort of increase in plantation activity. So, going forward, once the price is correct, definitely there is a scope for improvement in gross margins and EBITDA margins.
- Nikita Bansal:** But having said that, I will add one more thing, that we want to keep growing plywood. And if we want to keep growing plywood, we need to keep investing back into the business. So, in order to do that, we need to keep investing into brand building, we need to keep investing into our different influencers that we have. We need to keep investing into our go-to market. So, in order to do that, even if the saving comes down the line through raw materials, we will probably still try to maintain 12% to 14% because we want to invest back and grow our revenue more.
- Moderator:** Thank you. The next question is from the line of Kushagra from Old Bridge Capital. Please go ahead.
- Kushagra:** Just two questions, both on the MDF. One is with your South plant coming in, how different would be your COGS per CBM for the South plant versus North plant? Or if you want to give a total cost per CBM for South plant versus North plant once that plant operates on these normal utilization levels broadly?
- Keshav Bhajanka:** You see, the difference in timber cost is anywhere between Rs. 2,500 to Rs. 3,000 per ton. Now we roughly calculate that 1.7 tons of timber is used per CBM. So, that translates into anywhere between Rs. 4,250 to Rs. 5,000 change in COGS by virtue of North versus South.
- Kushagra:** And the second question is more on the market share aspiration in the MDF segment because clearly, you have the balance sheet in your favor and a lot depends on where you want to be in the India's MDF landscape. So, are you sort of working on certain number and I am asking beyond two years because if you have any thought process as to where you want to be in terms of market share, in terms of capacities in the MDF? Because capital employed on this business has clearly surpassed plywood segment, and it's almost going to double from here on in next two years, but after that you still would have a significant balance sheet support and the cash flow

support as well. So, just getting a little perspective as to how you are thinking about this whole thing.

Keshav Bhajanka: You see, the Chairman has always guided a turnover vanity, profit vanity, but cash is reality. So, we are a proven company, and we don't normally go into massive risk taking, but yes, our ambition is always to gain market share. We will attempt to be one of the largest players in the industry, if not the largest player. But having said that, we are not going to take undue risk towards that. I hope that answers the question.

Kushagra: Any number you would like to highlight on this?

Keshav Bhajanka: Currently, we would be expanding to close to 1,900 cubic meters per day by the end of this financial year, and in particle board in the next financial year, we will be expanding to a total of 1,000 cubic meters plus. So, we will already be looking at a 3,000 cubic meter. After that we will take some time. We will study how the market goes and then take decisions.

Sanjay Agarwal: Here again, I will request Sajjan, because he has a thinking about the MDF marketing future, how it will evolve as far as, you know, the whole industry is concerned. So, Sajjan?

Sajjan Bhajanka: Yes.

Sanjay Agarwal: I think that will be better to give them a perspective.

Sajjan Bhajanka: Actually, I am always very optimistic, and I am feeling that we are at the right place at the right time because our next few decades belongs to India, and in all the directions we have to progress, we have to grow and grow and grow. All the factors are supporting us. The population, the increase in the expendable income of the masses, and it is a vicious circle. So, the whole thing like we are producing more, we are consuming more, we are giving more employment, we are engaging the salaries, people are saving more. So, this, the whole circle is created.

And then the next thrust would be for the country infrastructure and housing because roti and kapda, there are limitations. In a short span of time, these things cannot change much. It's basically the habit of people and the spending pattern. So, in clothes and in the home cannot change much. So, whatever the saving this thing, it would be spent on the entertainment, education of their children, and to a great extent on the housings.

So, I am sure in the next 20 years, each and every Indian would have a house of these requirements smaller to bigger, and the people presently in smaller house would move to the bigger house and bigger in the regular or something. So, this will go on and with every change, they will need new furniture and then a whole lot of other things, white goods, other things, car, TV, paint.

So, this will support Indian economy in a big way. And plywood, you know, as soon as the house is constructed, next our role comes. And along with us, all the glass industry, paint industry, all those piping, cement, they all come into existence. So, I see a great future.

And I remember in the year 1993 where these things, this trend started in China, then the material from all over the world was going towards China. From India, we started exporting plywood in a big way to China. I remember at that time, the prices in India for plywood increased by 50% in less than six months. So, that was so hefty demand, and that cycle continued for a very long time.

But China could augment their plantation, put their own manufacturing capacity, and very soon they started meeting their own demand. And not only that, but they have also become biggest exporter of plantation timber as well as the plantation product, MDF, particle board, plywood. And I think we are also capable of repeating that and cheap labor is in our favor because when I first went to China in 2007, their wages is Rs. 3,000 a month. Now our wages is around Rs. 50,000 a month. China's wages is at Rs. 50,000 a month.

So, there is sea change, and this will continue because it is intentional on the part of Chinese government to make it more equitable to give more income to the people. So, they are intentionally doing it. Almost they are increasing the wages at the rate of 20% per annum, whereas in India estimated demand and supply and increase less than 10% in a year. So, this gap would continue widening. So, our production now for the low take items, India will become production hub for the whole world. Like earlier it was China, from Japan it migrated low tech to China, and then the Philippines, the Thailand and Malaysia and other countries, and gradually now the low-tech items would move towards India and neighboring countries, Bangladesh, Sri Lanka, Nepal. So, this will general development. So, I am sure future is ours for next at least two, three decades, we still have very good time.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today which is from the line of Aasim Bharde from DAM Capital Advisors. Please go ahead.

Aasim Bharde: Just two questions. First, I just wanted to understand the 2% higher value growth in plywood versus volume expectation in FY '24. So, basically the 15% value, 13% volume is what you said. So, my sense was since Sainik was and will grow faster, so that should explain volume, but value growth should ideally be lower. So, any sense on the gap here? Is it a base thing or is there anything else that I should...?

Sajjan Bhajanka: You know, like volume and the price are two different. By and large, every year we increase price. One or two revisions are there in price level. So, the growth in the price...

Nikita Bansal: I think what he was trying to say also is that we end up taking one or two price increases due to the timber cost etc., everything. So, hence, the value growth because of the price increase will

be higher than the volume growth. So, it has nothing to do with the Sainik and clock time issue. It is more to do with the price increases that we take.

Keshav Bhajanka: So, if you look at the average realization for plywood is up by 5% in FY '23 as compared to FY '22. So, I think that's sort of, you know, compensated for the product mix.

Aasim Bharde: And secondly on the CAPEX front, so FY '24 will be a big year for Century Ply, but on the financing bit, will almost all of it be internal accruals with minimum long-term debt? Or should there be some, you know, like, of course, in your presentation, you have mentioned a long-term debt number of 70 odd crores for FY '24, but that is in buyer's credit. So, just want to understand if there is any upside with the consol debt number, if any, for Century?

Sajjan Bhajanka: Like for MDF or for even particle board, most of the machines are being imported, and against the imported machines, we are allowed to get batch credit. So, like machine imported, then we can roll over the buyer's credit to next three years. And during that at our comfort level, we can repay buyer's credit at any time, and usually, what we have seen starting from our Hoshiarpur plant, so whatever bad credit was there, we liquidated that out of our generation. So, we had not to resort to the term loan for CAPEX like in the past, and same thing we are expecting like the machines for MDF and particle board for Andhra and Chennai would be imported. We shall get buyer's credit, and this would liquidate in three years out of our own....

Keshav Bhajanka: So, I think, you know, as the Chairman has correctly put it, we had planned we roll that by the next two years. However, after the addition of the particle board expansion in Chennai, I think we could be looking at a net debt figure of close to 400 crores to 500 crores by the end of FY '25. However, considering our strong cash flow generation, that debt wouldn't be on the books for too long.

Aasim Bharde: 400 crores to 500 crores at the end of FY '25, net debt, right?

Keshav Bhajanka: Yes. Net debt.

Moderator: Thank you, sir. Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to the management for closing remarks. Over to you, sir.

Sajjan Bhajanka: Yes. Thank you, ladies and gentlemen. Thank you for all your wishes and your time. Looking forward to meet you next quarter. Thank you.

Moderator: Thank you very much, sir. On behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.