

Century Plyboards (India) Limited

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BSE Ltd. Phiroze Jeebhoy Towers Dalal Street Mumbai- 400 001 Scrip Code: 532548	National Stock Exchange of India Ltd. Exchange Plaza, Bandra Kurla Complex, Bandra (E) Mumbai- 400 051 Scrip Name- Centuryply
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Dear Sir(s)/ Madam(s)

Sub: Transcript of the conference call for Unaudited Financial Results for the Quarter and half year ended 30th September, 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 Friday, 11th November, 2022 for Unaudited Financial Results for the quarter and half year ended 30th September, 2022.

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 Limited
Q2 FY 23 Earnings Conference Call”

November 11, 2022



MANAGEMENT: **MR. KESHAV BHAJANKA - EXECUTIVE DIRECTOR
OF CENTURY PLYBOARD
MS. NIKITA BANSAL - EXECUTIVE DIRECTOR
MR. ARUN JULASARIA – CFO
MR. NEHAL SHAH - CSO.**

MODERATOR: **MR. AASIM BHARDE - DAM CAPITAL ADVISORS
LIMITED**

Moderator:

Ladies and gentlemen, good day, and welcome to the Q2 FY'23 Earnings Conference Call of Century Ply hosted by DAM Capital Advisors Limited. Before the call, I would like to give a disclaimer that this call is just to discuss the company's historical numbers and future perspectives and in no way this should be constitute as an invitation to invest in the shares of the company. 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. Aasim Bharde from DAM Capital Advisors Limited. Thank you, and over to you, sir.

Aasim Bharde:

Thanks, Vivian, and good evening, everyone. On behalf of DAM Capital Advisors, I welcome you all to Century Plyboards Q2 FY'23 earnings call. We have the senior management from the company with us on the line. I will now hand over the floor to Mr. Keshav Bhajanka, Executive Director. Thank you, and over to you, Keshav.

Keshav Bhajanka:

Thank you, everyone, for taking your valuable time out for attending the Q2 FY'23 Century Plyboards Investor Conference Call. I am Keshav Bhajanka, Executive Director of Century Plyboard. I have alongside me, Ms. Nikita Bansal, Executive Director; Mr. Arun Julasaria, CFO; and Mr. Nehal Shah, CSO. 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 Q2.

At the onset, it gives me immense pleasure to share that we have done very strong cash flow generation of INR223 crore for the first half of the fiscal, despite huge inflationary pressure that the industry has seen in the recent past. After delivering record sales in Q2, Q3 and Q4 of last year, we have achieved another record sales of over INR900 crore revenue in the second quarter. Our plywood and laminate segment revenue recorded 9% and 8% growth Y-o-Y, while MDF and particle board segment revenue grew 23% and 24% Y-o-Y for the quarter. With the sustained input cost pressure in most of the wood panel segment, our overall gross margins were impacted by 90 basis points on a sequential basis to 33.15%.

The company, however, was able to improve its overall adjusted EBITDA margin marginally by 20 basis points to 17.3% on a sequential basis. While our plywood and laminate EBITDA margins improved, we saw a considerable drop in EBITDA margin on a sequential basis in our MDF and particle board segment. This has been driven by steadily rising timber and select chemical prices and operating deleverage. The reported margins in these segments were, however, are still higher than our guided EBITDA margins of 25% from both the success. It may be noted that the input cost inflation has softened a bit post Q2, while core revenue prices have come off slightly over the past few days, chemical prices, particularly phenol,

melamine have softened a bit in Q2 and are likely to further soften in the next couple of months.

For MDF, in particular, the timber prices, however, continue to remain slightly elevated. We have taken no price increases in any of our segments over the course of this quarter. Our India brownfield expansion at Hoshiarpur is as per schedule and is expected to come on stream by November 2022. Our South MDF CapEx has received all requisite of approvals and the machinery has been ordered. We expect the facility to come on stream in H2 FY'24.

Our greenfield laminate manufacturing unit in AP will come up in 2 phases. The first phase is expected to become operational in Q2 FY'24. Our greenfield particle board project in Chennai, the Board has approved investing in a large particle board project with a capacity of 1,200 cubic meters with an investment outlay of INR550 crore. We expect the plan to commission in Q4 FY'25. Our working capital stands reduced by 3 more days to 55 days in Q2. We remain a net cash positive company with net cash position of INR176 crore as of 30th of September.

Our Q2 ROCE stood at 22.22%, but adjusted for one-offs, the impairment loss in Myanmar and the entry tax reversal, the ROCE for the quarter stand at 29% plus. We have taken an impairment on our investments in Myanmar subsidiary to the extent of INR47 crore in Q2. This would reduce losses to the extent of INR5 crore to INR 6 crore per annum on the consolidated books year-on-year as it has become nearly impossible to conduct business in Myanmar due to the change in regime.

We have written back our earlier provided entry tax was INR14.25 crore relating to prior year after favorable verdict. Despite the challenging business environment, we continue to maintain our FY'23 revenue growth guidance of 20% plus for the company. The segment-wise growth rising is plywood 15% volume and 20% value growth, laminate 15% volume and value growth, MDF 20% volume and value growth, particle board 10% volume and 20% value growth. We also maintained our margin guidance for our business segments, plywood 13% to 15%, laminate 14% to 16%; and MDF and particle board 25%. Thank you.

Moderator:

The first question is from the line of Rahul Agarwal from InCred Capital.

Rahul Agarwal:

Keshav, 3 questions. Firstly, companies getting into a very high CapEx mode. It's obviously positive as you see sustained demand and opportunities there, but the execution risks are increasing in terms of land acquisition delay cost, overrun, labor requirement, deployment, stuff like that. Any thoughts in terms of how do you basically manage this risk going into next 3 years because we're going to be into high CapEx mode for almost 2 years from now. That's my first question.

Keshav Bhajanka:

So you are absolutely right. We are going to a high CapEx mode. And you see we are taking a number of initiatives, for instance, the particle board plant that you have just heard. We already have

acquired the land. We've got the land from SIPCOT in Tamil Nadu. And that is a big release because, as you know, acquisitional land becomes a substantial challenge. As for delays and cost overruns, you're completely, there is a cost overrun environment today because of the high steel prices and high prices so on and so forth. But I think we able to provision for that to whatever extent possible, the ROCs on the unit even considering the higher CapEx costs are still fairly healthy. And one way that we are managing to this is by creating a very strong execution fee. I think this has helped us in the past and even today, it is helping us in set up the most economical and viable unit possible.

Rahul Agarwal: So in terms of manpower deployment, both at senior leadership plus middle management because you have so many plants coming up, how's that really going on right now?

Keshav Bhajanka: That is actually our first and top most priority, and we have expanded the team substantially over the course of the past few months. This was the first thought that came into our mind as to who is going to execute. But thankfully, we've been able to onboard senior management and very, very good resources. I would say. This has given us a lot of confidence that we'll be able to deliver on our CapX projects on time.

Rahul Agarwal: Got that. Secondly, you mentioned, MDF particle board margin is 25% plus. That is for the current year. But if you could just share what is really happening from an industry perspective, going into next 12 months? And what do you think about margins going into '24 and fiscal '25, like sustainable, I know the range is 2025, but if you could give any indication please?

Keshav Bhajanka: You see, the reason we say 25%, even though the previous quarter may have been 30% plus something that quarter, because there will be ups and downs. Right now there is pressure because import prices have come down due to shipping rates reducing. But despite that, we are being able to maintain decent margins. Going forward, again, there is going to be a scenario in the industry, say 12 or 18 months down the line, where there's going to be a overcapacity and at that point in time, margins might get squeezed temporarily. But going forward long term, I think sustainable margins for us would be 25% or there about, because I believe that with our brand, with our supply chain excellence, we'll be able to generate substantially higher margins compared to the rest of the industry. And I think 20% is somewhat of a requirement if you want to set up a very high CapEx plant in either of these two products.

Rahul Agarwal: So 25% is applicable both to MDF and particle board going into like long term, right, sustainable?

Keshav Bhajanka: Yes, there could be phases where margins are slightly lower and there will be phases where margins are definitely higher, but long term sustainable margins or are looking at 25%.

Rahul Agarwal: I understand that. And lastly if I may, just on the overall EBITDA margins, obviously there are a lot of moving parts now, given your new capacities largely coming up in fiscal '24, and lot of that are also

value added. Next 3 years, I would imagine purely because assuming that MDF particle would also normalize between this 25% band, the company should make about 15 to 16% at a company level. Is that fair to assume? I know there is no perfect answer to this, but just as a range next 3 years is that okay?

Keshav Bhajanka: Very good question was making me think. But see, we have all these cases that our objective is that we will attempt for 13% to 15% in the ply, 14 to 16% in laminates, and will attempt for 25% in both MDF and particle board. That is continuing our endeavor. That is what we are targeting. If we achieve all of these, then definitely we should have 16%, 17% margin for the company.

Moderator: The next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Kindly proceed.

Venkatesh Balasubramaniam: One simple bookkeeping question. The Myanmar subsidiary write-off of INR47 crore that is very clear in the standalone numbers, right? It's put out an exceptional or an extraordinary item. Now where is the adjustment in the consolidated numbers for this onetime write-off? Actually, first of all, is the write-off for INR47 crore in the consolidated numbers, or it is INR29.8 crore if you could clarify? And where is this actually being booked in the consolidated numbers?

Arun Julasaria: No, in case of consolidation of accounts, we have two aid line by line items. In case of consolidation, our investment value is adjusted with the loss shown in that subsidiary. So it'll not appear as write-off or impairment account in consolidation because loss has already been factored in line by line consolidation.

Venkatesh Balasubramaniam: So line by line consolidation, so you're basically, this is all items.

Arun Julasaria: Because the networth of that company is now reduced to INR12 crore only. So INR47 crore plus INR12 crore, INR59 crore was the total capital invested. So in line by line consolidation, I have taken care of that INR47 crore loss.

Venkatesh Balasubramaniam: So there is INR47 crore of loss across various line items, right, from raw material costs, employee costs, other expenses?

Arun Julasaria: Yes. That is line by line consolidation. So there they'll not appear as impairment loss.

Venkatesh Balasubramaniam: Understood. Now is it possible for you to repeat your FY'23 guidance in terms of value, volume and margins for each of those segments? And also request you to repeat it a little slowly so that we can take it down.

Keshav Bhajanka: The guidance is 15% volume and 20% value growth for plywood. 15% volume and value growth for laminates, 20% volume and value growth for MDF, 10% volume and 20% value growth for particle board.

Venkatesh Balasubramaniam: What about margins?

Keshav Bhajanka: For margin guidance for plywood, we will attempt for EBITDA margin 13% to 15%, for laminate between 14% and 16%. And MDF and particle board 25% plus.

Venkatesh Balasubramaniam: Okay. Now I guess for the first time I heard a 20% number for MDF, I guess till the last number, last quarter, what was being communicated was you will definitely do 25% or more longer term. That is a sustainable margin. But I don't know in the previous participants question it said that, short term it could go to 20% to 25%. Have you communicated anything like that?

Keshav Bhajanka: No, I don't think we have communicated anything like that. I was talking about 20% volume and value growth in terms of margins, guidance still is 25%. So you believe even if there is over capacity in let's say FY'24, you can still do 25%?

Arun Julasaria: In the short term, there could be an impact, but we did not anticipate doing 35% in Q1 either. So long term guidance is 25%.

Venkatesh Balasubramaniam: Okay. See this is the reason I'm again belaboring on this point is, this is a question which keeps coming up when we discuss Century Plyboards with the buy side is where do you get this confidence that it'll not go below 25% because imports have already reached the ports and in port cities, MDF prices for imports are around 8% to 10% below the prices of that of the domestic market. So why 25%? What is so sacrosanct about 25%? Why can't it go to 20% or 18% if there is an oversupply is something which we are and we don't know really know how to answer it. So if you could throw some light on it, it would be very helpful?

Keshav Bhajanka: Definitely. So you see today our capacity right now is based in the north. Our capacity in the south is going to come onboard only end of next year. In the north the freight cost gives us a major advantage because from the south to the north transporting from a port location to say Delhi is not a very cheap affair, and in the case of MDF, you know, that is not a very high cost per kg. The transportation and trade cost there is a large growth. So that is one.

Secondly, the capacity that we are commissioning right now in the north is being commissioned, taking into account a lot of synergies that we will get from our existing unit. A lot of synergy use in sales and marketing, and we will benefit from operating levels. And you've seen in the past when operating leverages come into place margins have tended to rise. So this is for the north. As far as south is concerned, we are setting up our capacity in the hub of timber. We are setting up in a market where the timber price today is INR3.15 as compared to INR5.5 to INR6 in the north. This going to be a substantial benefit that we have and with this we believe that we'll be able to do good EBITDA margins in the south itself.

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

Achal Lohade: My first question was, if you could just clarify on this MDF margin Q-o-Q they are down almost 10 percentage points. I see the realizations are fairly same. If you can give a clarity as to what is

driven this margin impact in terms of each of the items in terms of raw material or chemicals cetera?

Keshav Bhajanka: So that two factors are come into play for MDF. First, gross margins are down because of raw cost pressure; and secondly, we have had operating deleverage in this quarter because it'll break down in the plant. It was a scheduled maintenance that took longer than expected and it was a breakdown, but in the current quarter, we're expecting both the benefit of operating leverage as well as a slight easing out of raw material prices, and I think that our EBITDA margin should improve from this quarter onwards.

Achal Lohade: But if I see your 25% margin guidance, actually it appears that it'll be less than that in the second half. How do we explain that then?

Keshav Bhajanka: So we have given 25% guidance even prior to the beginning of the year. So we did 35% in Q1 with 25% guidance. 25% is the long term margin guidance. The reason what we comment on short term is because there are lot of fluctuations that can take place as you have already observed.

Arun Julasaria: And Achal, even if you look at the current Q2 margins in MDF, if you adjust for ForEx loss, which is around INR2.45 crore, which is relating to CapEx for bias credit with respect to MDF, your margins adjusted for it, comes to around 26.7%. So that is one. And secondly, on the operating leverage site, our capacity utilization was 80% for Q2 compared to 89% in the first quarter. So these two things will help us at least maintain our 25% plus margins. That is what we are seeing.

Achal Lohade: Understood. Can you help us understand, how are the current prices of MDF in south and what is the import parity price? And also in terms of import quantum, if you can give some clarity as to how the imports have been in terms of quantity in last 2,3 months?

Keshav Bhajanka: So imports have increased. The reason behind that is lower cost of rate. Exact numbers, Nehal can get back to you. I don't have the exact numbers on me right now, but definitely there has been increased in imports due to lower shipping in freight costs. This has affected South India to a certain extent, but as of now, it does not put meaningful pressure on the domestic market.

Achal Lohade: Understood. And in terms of the particle board, can you help us understand, what is the market size? How much is organized, how much is imports? What is import parity there? I know you have given a bottom line in terms of the margin expectation, but if you can give some color on the industry dynamics as well?

Keshav Bhajanka: Definitely. You see in particle board, the total capacity would be 1.5 billion cubic meters plus. Most of the market is unorganized. There are virtually no organized and perhaps an associated decor. Most of the lines that are operating today are multi delight lines. So even our line is a multi-delight line. Now, there are a number of disadvantages that a multi-delight have. For instance, firstly, we have higher blue consumption. We have a higher density than what we could operate at multi-delight, and we have higher standing loss. So taking all of

these into account, there are numerous advantages will bring to the table. Hence, the vision to go for a 1,200 cubic meter continuous press line, particle board is a far lower price product compared to even MDF. So freight becomes a major issue.

South India is the largest hub because South India has the largest OEMs in the country and these OEMs have accepted particle board. If you look at the acceptance of MDF is higher in the north, whereas the acceptance of particle board is higher in South India. So as such, we believe that the market is going to do very well long term. We have over 2.5 years that we will set up a new capacity and I think by the time that the capacity operates, considering all the advantages that we'll be having, it is going to be a highly look to product for.

Achal Lohade: If I recall earlier you were talking about flexi capacity in terms of MDF and particle board. So this particle board capacity there is no such flexibility. Is that understanding, right?

Keshav Bhajanka: Yes, absolutely correct. This is a pure particle board capacity. One point that I forgot to mention, sorry, was that now in this capacity, because today we are limited by virtue being a multi-delight, we can only manufacture either 9x6 or 8x6 sizes. And that too, we can only manufacture 9 mm and above. Once we have a contiguous press, we will have a much wider range. So that is going to be another major advantage going forward.

Achal Lohade: Understood. And in terms of the cost, the A&P spent in this quarter and the BCG cost, if any?

Keshav Bhajanka: Yes, we have BCG costs. So BCG has started working, they were working on laminate as well, and they started working on particle board. In particle board they have already identified substantial savings. This could lead to 2%, 2.5% bump in EBITDA going forward. A&P spend has come down because in quarter 1 we had the IPL, and that is a substantial part of our overall marketing budget. So that kind was front loaded.

Achal Lohade: Would you be able to quantify how much is the A&P in the second quarter?

Nikita Bansal: It's 2% lower than what it was in Q1.

Arun Julasaria: So if you look at the overall company, it's 1% lower as far as company as a whole is concerned. And for plywood division, it's almost like 2%.

Achal Lohade: As a percentage of revenue you're talking about, right?

Keshav Bhajanka: Yes.

Achal Lohade: Okay. I understand. Thank you. And one more question I had. In terms of the plywood segment, obviously given the high base the Y-o-Y numbers appear muted, but can you help us understand how is the demand scenario out there for the plywood segment? And can we expect a similar run rate in terms of volumes?

- Nikita Bansal:** Yes. So in terms of expectation, we expect a single-digit growth in H2 over 1st H2. See the demand that we were seeing during COVID, definitely the growth run rate is not the same as that this year, but we've been able to sustain numbers and we are growing. We had a high base, like you said. So because of that Q2 number growth is seeming little low, but overall, I think we are quite happy with our performance and we expect to grow over in H2 as well, and Q3 definitely being effective quarter will be lesser growth and Q4 will be where we'll have a higher growth.
- Achal Lohade:** So when you're talking about growth that you meaning from a Y-o-Y perspective, because you will have festivals even in the base quarter, right?
- Nikita Bansal:** Yes. Y-o-Y perspective, we will definitely have single-digit growth, as I mentioned in H2.
- Achal Lohade:** Right. And can you also give some sense about how the premium segment is doing? How non-premium is doing in terms of the growth and the outlook?
- Keshav Bhajanka:** We don't specifically give numbers.
- Nikita Bansal:** Like Keshav mentioned, they don't give specific numbers between Sainik and our Century brand. But just to give a idea, overall free Sainik operates in a much more larger base because majority of the market today in plywood lies at that INR80 to INR100 that is where Sainik operates because Sainik is supposed to convert local into branded. So definitely the growth rate of Sainik is going to be higher because it started from a very low base. We started the product only 3 to 4 years back. So hence the growth rate will always be higher in Sainik for the next few years. And having said that, we do have growth even in our premium segment, and that is purely because of the innovation that we are doing and the brand awareness and the brand campaigns that we are doing is really helping us grow in our premium segment as well.
- Moderator:** The next question is from the line of Sneha Talreja from Edelweiss. Kindly proceed.
- Sneha Talreja:** And just a couple of questions from my end. Firstly, relating to demand actually, what led to this kind of a slow moment in demand, in your sense? And extending to that question, is that the reason we are not able to take any increase in MDF, although the raw material prices are on an increasing trend? Or is it the fear of import due to which the entire industry is unable to take any price hike?
- Keshav Bhajanka:** So you see regarding MDF definitely we have taken substantial price increase over the course of the past year, year and a half. And in MDF there is not just a if you import, but if you increase prices disproportionately, you come closer to the lowest end of plywood where I think the entire equation of ply or MDF will move a little bit towards plywood, even though that plywood is of lower quality. So that was one point.

Sneha Talreja: Just regarding the in general slowdown and demand that we have right now in raw material and where do you get optimism that that's going to increase, I mean that's going to get better?

Keshav Bhajanka: So I think that in the last quarter you saw the impact of all the inflation pressure that was created in the system. It was prices of a lot of commodities had skyrocketed and I think this had an impact on the home building space as well. Going forward, I think they're all very bullish, especially pertaining the registration number and the property sales numbers that are coming in, that the market is going to do. There could be minor hiccup in the short-term, but we remain very optimistic and very bullish, and I'm expecting a good recovery in the H2 as such.

Arun Julasaria: Sneha, just to add on this, a couple of things here. So if you look at the base also, base for entire build material industry going into Q2 and Q3 was very, very significantly high because post COVID the numbers were very, very strong. So that's again, a reason why people are looking this or realizing this as a very, very muted moderate growth. So I think that is one. And second is the inflationary environment, which is also led to the situation. And now if you look at the inflationary environment that's been almost likely to probably move down a bit. So this will again help regain the growth momentum going forward.

Nikita Bansal: One more thing I would like to add. The reason we are so optimistic is because as a brand we are continuously investing in building our brand. I think we have amongst the only brand who continuously throughout the year spends money on branding as well as on improvement in terms of technological improvement. So I think an innovation. So because of that, I think we are extremely positive that we will keep, even if the market is muted, we will grow the way we are expecting to grow. And having said that, I think we are also working continuously on improving our cost structure and improving our market GTMs, et cetera. So I think that is where our optimism comes from.

Sneha Talreja: And that was pretty helpful team. The last question was actually related to your margins. We've seen good amount of improvement in your plywood and laminates margin and laminates despite the BCG expenses coming in. And in fact, both these places you are higher than your guidance. So what has led to this higher margins? Is there any exceptional item here or these are like now sustainable levels. Although I know the long-term guidance is 13% to 15% and 14% and 16%.

Nikita Bansal: Yes, so I'll take on the plywood part. So actually we are within the 13% to 15%. Q1 actually our EBITDA margin was below because the IPL, like Keshav said at the beginning. IPL cost was taken in Q1 and because of that the loading came in Q1 and that loading wasn't there in Q2, number one. Number two, we took a lot of price increases consecutively in Q1. So there was a price increase in April, there was a price increase in May end, there was some part increase even in June. So Q2 was a pure quarter where all the price increases had come into full effect. Because of that, our EBITDA is actually come back to what we expected, which is 14%.

- Keshav Bhajanka:** With regards to laminate, I think the current margin, yes, we have worked very hard to ensure our product mix in domestic as well as export improves. And going forward, like I said, we will attempt to do 14% to 16%, but yes, we may be doing slightly better.
- Moderator:** The next question is from the line of Shubham Agarwal from Axis Capital. Kindly proceed.
- Shubham Agarwal:** Just on following on the comment of MDF and freight, which you would have already emphasized much on. I just wanted to understand what is the realization for truckload for ply and MDF, how different is it? And let's say, what is the freight cost if you apply the vehicle from say Hoshiarpur to Amritsar?
- Keshav Bhajanka:** Amritsar would not be a very major cost. I think the freight cost would be, say maybe a INR1,000, but I don't have data with me. Nehal can give you data later. Plywood in general, our plywood would be at least 2x the cost of our MDF, so I think that is thumb rule that we follow. But again, Nehal can get back to you with exact number.
- Shubham Agarwal:** Okay. I'll get that separately. Secondly, what is the price difference in imports and domestic realizations right now? The price difference in imports and domestic MDF?
- Keshav Bhajanka:** It actually depends on the location because if you look into the north, the landed cost to import, goes up substantially. In the south, I think that MDF is currently being exported at about \$220 per CBM. But on top of that, you need to add the cost of freight. You need to add the cost. It varies from location to location.
- Shubham Agarwal:** Imports, price of imports and domestic in south, how different?
- Keshav Bhajanka:** In \$220 is FOB. After that you have to do a lot of loading, et cetera. I think the difference between domestic and imported prices, ballpark, because south is not really our focus area, but it would be of 10%, 15%
- Moderator:** The next question is from the line of Hitesh Agarwal from India Inside Value Fund. Kindly proceed.
- Hitesh Agarwal:** In particle Board, I wanted to ask, what will be the asset turnover for our CapEx of INR550 crore for the new plant?
- Keshav Bhajanka:** The turnover for the new capacity will be in excess of INR600 crore,
- Hitesh Agarwal:** Excess of INR600 crore. And what will be the kind of time gap between the commencement of the plant and its full utilization?
- Keshav Bhajanka:** I think you take about 2.5 to 3 years to utilize the plant.
- Hitesh Agarwal:** Okay. One question, like in the particle board segment, could you tell me of the industry as such, what will be the percentage of imports as such, and how is the price difference between the import and the like domestic prices?

- Keshav Bhajanka:** Again, it's a very fluid scenario right now, today imports FOB would be at about \$120. I think will be at about \$150 and domestic prices that is then we need to take into account all the other costs. But I would say again, that we would be at least 10% to 15% higher. The domestic prices would be 10% to 15% higher than imports, but domestic OEMs got a lot more flexibility from us because they can procure material virtually overnight. Whereas if you look at these imported competition, the lead time is substantially higher. Also for a unit, it does not have a prelam facility for them to rely on import becomes next to impossible because you cannot really select a design for once in a one. It is a very difficult proposition. Here domestic manufacturers give them that flexibility.
- Hitesh Agarwal:** Okay. Coming to the MDF segment as such, could you give a color on the rise in the timber and the chemical prices sequentially?
- Nehal Shah:** Yes. Hi, Hitesh, Nehal here. So if you look at the raw material price movement in MDF segment, timber per se has gone up by almost say 10%, 12% since the start of the year. So that is one which has impacted the gross margins. And secondly, chemical, again, has gone up substantially. So one of the chemicals what we use has gone up almost by 20%, 25% So that has what has led to almost 650 bps, 700 bps gross margin deterioration.
- Hitesh Agarwal:** Okay. And should we consider kind of softening of the chemical passes going forward as such?
- Nehal Shah:** So timber prices are still elevated, but as far as chemical prices are concerned, which had actually seen a very drastic move, they have started coming off a bit. So that is what will help us give a cushion to our margins.
- Moderator:** The next question is from the line of Parth Bhavsar from Investec India. Kindly proceed.
- Parth Bhavsar:** Sir I have this question, so you guys are setting up a laminate plant in West Bengal and then there's an upcoming plant in south. So what is a brownfield optionality at both these places, like over and above the capacity that you're setting up, is there any option to increase your capacity beyond this?
- Keshav Bhajanka:** Further increases in Calcutta would be difficult because we are now space constraint. And in the existing premises, I don't think we'll be able to set up any more units. In Andhra, in Phase 1 we are coming up with two hot presses, and in Phase 2 we'll be coming up with a further 2. And we have created enough provision to come up with 4 units in Phase 3. But that as of now is something that we have not thought too much about. Right now it is about Phase 1 and Phase 2, but definitely we can set up to 8 lines if we are comfortable.
- Parth Bhavsar:** Okay. So in Phase 1 and Phase 2, you'll be adding 4?
- Keshav Bhajanka:** Yes.
- Parth Bhavsar:** Okay. And sir one other thing that, what is the rationale to go after particle board and not plywood, could just elaborate a little bit on that.

- Keshav Bhajanka:** We always go onto plywood. We are definitely looking to grow in plywood and we have taken up a lot of investment in balancing equipment across plywood, first to increase our capacity. So it is not that particle board is coming at the expense of plywood.
- Nikita Bansal:** And I'll add to that so that, that we had announced that we will set up a unit in Hoshiarpur for plywood. So we're in a search for land right now, so we have some land options. So I think hopefully soon, we'll be able to close something.
- Moderator:** The next question is from the line of Nikhil Agrawal from VT Capital. Kindly proceed.
- Nikhil Agrawal:** Sir, I wanted to know like what is the per tonne timber consumption for 1 CVM production of particle board?
- Keshav Bhajanka:** It would be close to 1,100 kgs.
- Nikhil Agrawal:** And sir coming to your MDF segment time, missed to what you said about to the earlier participant's call. The rise in timber, what was the rise sequence, rise in timber cost and chemical prices?
- Keshav Bhajanka:** Timber cost has gone up by 10% to 12% over the course of the current year for MDF in particular in the north of India. And chemical prices had increased by in excess of 25%, but now they are showing finally correction.
- Nikhil Agrawal:** This is in 2022 or in this fiscal?
- Keshav Bhajanka:** In this fiscal.
- Nikhil Agrawal:** Okay. And sir, about your greenfield expansion for MDF, you said that, it recommends production from H2 FY'24?
- Keshav Bhajanka:** Yes.
- Nikhil Agrawal:** Okay. So that means there has been a delay of 2 quarters?
- Keshav Bhajanka:** No, for H2 FY'24, there is a 0 delay in the project.
- Moderator:** The next question is from the line of Udit from ES Securities. Kindly proceed.
- Udit:** So this is 2 parts. One is that when we mentioned about 15% overall growth for '23. So just basically what we have done in H1 and the balance in H2, what would be expected. So are we looking at a decline year-on-year for H2?
- Keshav Bhajanka:** No, we are definitely not looking at any decline. But having said that, we are not getting overly excited by good performance in H1.
- Udit:** Understood. And sir, just fundamentally on the product side, like you mentioned that in south the OEMs have accepted the particle board. So do you see any threat to MDF, like we are coming up with CapEx in both is understandable and in south, we are coming up with MDF

as well. So what explains that part like particle board can take market share of MDF structurally just wanting to know on the category?

Keshav Bhajanka:

You see, I think we have to look at it from a little more holistic point of view. If you look at particle Board, the usability in OEMs is excellent. It's a highly valuable product and for H1, it is a product that is durable because it is not as heavy usage as domestic furniture would be. For domestic furniture MDF usage is still very strong. In the south, the acceptance of particle board has been there for quite some time now, whereas in the north particle board has really not been accepted as a very strong or very good product because MDF penetrated much earlier.

So I think both are going to grow substantially. As we have mentioned earlier, the particle board capacity in India would be about 1.5 million cubic meter, whereas the particle board capacity in China is 50 million cubic meter. So we're still 1/30 of their size. There's a lot of room for growth and in MBF as well, our capacity will be 2 million, whereas China's, I think would be around 55 million or 60 million. So again, there is substantial room for growth in both. I don't think growth in category will come at the cost of the other, but definitely both are going to be high growth categories going forward.

Udit:

Got it, sir. And just lastly following up on particle boards, what kind of industry growth are you expecting? And like you mentioned, it is a highly fragmented and organized industry. Will we be able to get any pricing power or you'll be just stay the industry dynamics on this one.

Keshav Bhajanka:

I think more than pricing power, we will be able to give a range of products that only few limited number of players will be able to offer. So the unorganized players would actually not be able to compete considering certain products they cannot manufacture. So for instance, less than 9 mm could not be manufactured in any multi-delight. Today, even we cannot manufacture less than 9 mm. But going forward only 3 or I think 4 players who will have continuous stress lines will be able to offer these products. So that gives us a substantial advantage in the market. And once these products come into play, once they accepted, then we'll have pricing power because the threat of competition is going to be far lower.

Moderator:

The next question is from the line of Pranav from Equirus Securities. Kindly proceed.

Pranav Mehta:

Sir, I wanted to understand, if you can throw some light on how the MDF prices are moving globally? That was my first question. And the second question was, how long do you think the timber availability issue is going to be a major problem for the industry? Because just for my understanding, at least for next 2 years, things are going to impact on the timber availability issue in India?

Keshav Bhajanka:

So I'll answer the second part first. Definitely there is a crunch of timber and that is something that we are all facing, but the result of this is a much higher timber price, which has led to tremendous amount of plantation. Now, if you drive from Chandigarh from Hoshiarpur or from Amritsar to Hoshiarpur, you'll see the quantum of agro policy that is taking place. So you are right. For a couple of

years, they might be under pressure, but after that the quantum of timber that will be available in Punjab, Punjab itself will be a net plus. And I'm sure that this is happening in practically all other parts also because with this higher timber price for farmers, this becomes a very lucrative proposition, especially considering that they don't need to give as much time to eucalyptus as we need to give to a wheat or to rice. And the cycle with these higher prices really moves in their favor, particularly for land that are not very addable, land that are not very fertile. This becomes a very viable option.

Secondly, internationally, yes, prices have softened for MDF, but what has also happened as rupee has depreciated from INR72, INR73 levels to INR80 levels. So that is a 10% increase in cost, right? So overall, this softening has been cushioned by this impact of the rupee depreciating.

Pranav Mehta:

Okay, sir. And sir, how are the laminate exports for us are shaping up? Because industry seems to be doing quite well on the export front. So are we aggressively targeting exports as a growth opportunity for us, because we have also a lot of room to catch up in the domestic market? Or we are going to focus on domestic quality?

Keshav Bhajanka:

No, we are going to be focusing on both. You see in exports, higher sizes are required till now laminates, we only operate at 8x4 sizes. For exports, we have requirement for 10x4 sizes and 14x4 or 12x6 sizes. In Andhra, we are coming up with 1 14x6 and 1 10x4, post it, a lot of international markets a lot of export markets will be open to us, but till now have not been. So definitely we are exports, you are absolutely right, there's a lot of headroom there and we are focusing on the same.

Moderator:

The next question is from the line of Ashish Kumar from Infinity Alternatives. Kindly proceed.

Ashish Kumar:

And congratulations for a good steady set of numbers. So a couple of questions. One, a near-term kind of question and the second is a longer term. On the near term, from the way we stand in terms of the EBITDA margins and the revenues, do you see any sequential pressure point over the next 2, 3, 4 quarters? Or should we assume this to be a base number with the new revenues being added from new capacity expansion. Is that a fair way to look at it?

Nehal Shah:

So basically if you look at the raw material cost, as I said earlier, some of the raw material prices are definitely on their way down, at least over the next couple of months, which you can see at the moment. So to that extent, the pressure would be easing out, particularly with respect to those chemicals. Even as far as plywood is concerned, core medium prices have dropped a bit possibly around 2.5% to 35. So finally there's a respite to that because those were the prices which were consistently increasing gradually over the last 4 to 6 quarters. So to that extent, yes, we should get benefited to that extent. And as far as growth is concerned, obviously with the new capacities coming up on stream, we should be able to take advantage of those coming on time.

- Ashish Kumar:** And second one was from a slightly longer term. We've announced massive CapEx in businesses which are a 25% EBITDA margin, let's say, based on longer-term guidance. So from a company perspective, today, if you look at it, particle board plus MDF is roughly around 21%, 22% of revenues. But let's say, 3 years out, would it be fair to assume that, that proportion could be more like 40%. And if I assume, let's say, 15% for your plywood plus laminate business and 25% for this business, would that mean that from a company perspective, we could be starting to hit margins, which are closer to the 20% mark rather than the 15% mark?
- Keshav Bhajanka:** I think you've hit the nail on the head. Definitely, that is the reason why we're investing so substantially in these areas. Having said that, because of the fact that MBF and particle board are part of our industry, we have the opportunity to reinvest our tax flows in high ROCE businesses. So this is a very, very, I would say, good time and a good opportunity for us. Going forward, yes, we are looking at a higher percentage of the mix coming from MDF and particle board despite a good growth in plywood and laminate. So this should push the margins like we have. One more point that you need to understand is, the working capital requirements in both particle board and MBF are substantially lower. So again, this is our quest for higher ROCs.
- Ashish Kumar:** Sure. Only one thing, Keshav, that if you're guiding for a 25% EBITDA margin and that's your revenue to CapEx of 1.3x, then one could be looking at, let's say, mid-20s kind of an ROC as compared to, let's say, significantly higher for ply business. Is that a fair way to look at it?
- Keshav Bhajanka:** At this point in time, what we are seeing is that the asset turnover ratio has actually been far better than the numbers that you have just suggested. So I think what we are targeting is 20% plus ROC. That has been the objective from day 1, and both these businesses should be able to give us that. But yes, I am hopeful that the numbers should be slightly better than that.
- Ashish Kumar:** Sure. Okay, given the fact that you're closer to currently the 30% mark, that's a huge wind down.
- Keshav Bhajanka:** Today say, we are very lucky that we have been able to deliver on sustained basis. But going forward, you see, you need avenues for growth and these two products represent avenues for growth. So I think that long term margins will be good. Long term, they will generate good ROC, maybe not as high as plywood or laminate. You could be correct.
- Moderator:** The next question is from the line of Shrenik Bachhawat from LIC. Kindly proceed.
- Shrenik Bachhawat:** Sir, my first question is I wanted to understand that we are doing planning of INR550 crore CapEx for particle board and also Greenlam and Merino are planning a similar CapEx. So as all the 3 players are increasing the capacities in particle board, how is the pricing scenario for us? Like are the organized players selling at a premium versus unorganized or at the same pricing?

- Keshav Bhajanka:** See, Century command the premium over the unorganized players and going forward like I mentioned, in a comment, there are a lot of advantages that you'll get. So definitely product quality will improve, which should get you further pricing premium. But beyond the same, you'll also get the benefit of substantially lower operating costs. So going forward, I think, the organized players will have a substantial benefit over the unorganized sector, particularly in the particle board space.
- Shrenik Bachhawat:** Okay. And particle board how much of the sales is B2B and B2C?
- Keshav Bhajanka:** For particle board, the majority sale is B2B.
- Shrenik Bachhawat:** Okay. And sir, I understand that readymade policy that sold on Internet. Normally, we say that rationale for MDF is the growth in the readymade furniture market, but most of the online funds that is being sold is made of particle board, I was just going through the online websites. So what is your take? Like, what is the proportion of MDF versus particle board for the online furniture that is sold?
- Keshav Bhajanka:** This is very difficult to club online furniture into 1 category because there are so many options. But see for instance, IKEA uses more than 80% of particle board and a very small and significant part of MDF. But in India for residential furniture, MDF is the preferred third generation wood panel product. Whereas for office furniture, particle board is currently the preferred product. On price particle board would be 1/3 the price of plywood, whereas MDF would be half the price. So particle board has a distinct advantage, hence when you look at lower price furniture, you will more often than not see particle board. But for residential furniture, most of the readymade residential furniture is showing a trend of being leaning towards MBF rather than particle board.
- Shrenik Bachhawat:** Got it. And just last question, wanted to understand that as we highlighted that the second half of this year we will see single-digit growth in plywood. So what gives us the confidence for FY'24 to deliver 15% volume growth and 20% revenue growth?
- Keshav Bhajanka:** I think, we have done a lot of things, as Nikita has mentioned, we have implemented our salesforce automation tool, which I think is a first in the industry to do. We have changed the entire GPM. We have invested substantially in branding. So I think all of these initiatives put together have put us in a very good space. Now, slowly we will see the benefit of these initiatives coming because it does not happen overnight, hence, we are confident that going forward, we will be able to deliver good sustain numbers.
- Shrenik Bachhawat:** So 15% volume growth in plywood you're telling on a sustainable you can deliver?
- Nikita Bansal:** That is what we would want to achieve, yes.
- Shrenik Bachhawat:** The industry is far lower than that, right? And Century is already a brand in India and well-known and everything. So can we deliver so much as for industry growth rate?

- Keshav Bhajanka:** Just one thing. What we also must factor in is that there is a change from the unorganized to the organized that is really taking place and that is really aiding our goals. You must realize in plywood, only 30% of the market rate is organized. Now if this changes, say even by 1% or 2%, that gives a substantial boost to every single organized player. And we as market leaders only intend to cash in on the same.
- Nikita Bansal:** So just to add to that, we are currently 5% to 6% of the entire plywood industry. So the reason why we have launched Sainik in the amount of money we are spending behind Sainik is because we seen the opportunity lies in converting this unbranded to branded. So even if the industry is growing at a certain pace, we want to grow more than the industry because we want to capture more market share. So hence that is where the 15% comes from.
- Moderator:** The next question is from the line of Rajesh Kumar from HDFC Securities. Kindly proceed.
- Rajesh Kumar:** My question is, first, on this particle board project. Is it the existing location or a greenfield one nearby?
- Keshav Bhajanka:** It is a greenfield location nearby.
- Rajesh Kumar:** Okay. And this CapEx, which we are incurring, does it have an optionality of increasing the capacity 2 to 3 years hence?
- Keshav Bhajanka:** For the finish capacity is 2 years.
- Rajesh Kumar:** Sorry, I missed it. The existing capacity, which you are putting up 3.6 lakh, can it be increased further? Or is the land and other?
- Keshav Bhajanka:** Yes, land is there, but the current line and the current shared, et cetera, everything that is being designed is being designed for the 3.6 lakh. Going forward, of course, in the same location, we can set up another unit.
- Rajesh Kumar:** Okay. And sir, you don't have a laminate facility nearby. So will that have an impact on your prelam sales from this plant?
- Keshav Bhajanka:** No, we didn't have a laminate facility in Chennai earlier either, right? So prelam the paper inventory management is not as difficult as laminate because it is for sell there. So that is not a challenge anywhere, whether it is Hoshiarpur, whether it is Chennai, whether it is any other location. With the particle board facility, we will be coming up.
- Rajesh Kumar:** Okay. And second in the MDF, you mentioned that the import and domestic price difference is 15%. So historically, maybe please, what has been the sustainable pricing difference between imports and domestic prices?
- Keshav Bhajanka:** I don't have numbers with me at this point. I'll get back to you on the same.



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Rajesh Kumar:

Okay. Just wanting to assess that, when you are looking at from 30% to 25%, what more pressure can on a sustainable basis it lead to, because the domestic capacity is more. So the purpose of me asking this question was to assess that when you're factoring in the margins to pull off to 25%, if the margins have to sustain, let's say, 10%, 15% level, so can it lead to higher compression on a sustainable basis, say 20%. So this is what I wanted to asses. We'll talk on this later.

Moderator:

Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Keshav Bhajanka:

So thank you so much to all of you for taking out your valuable time to attend this call. The one point I'd like to make is, as always, your management is going to try to their level best to deliver as good a performance as we can. And hopefully with all your support, we'll be able to achieve it. Thank you.

Moderator:

Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.