

Century Plyboards (India) Limited

Century House,

P 15/1, Taratala Road, Kolkata - 700088

• P: (033) - 3940 3950 • F: (033) - 2248 3539

kolkata@centuryply.com • www.centuryply.com

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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, 2024

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, 15th November, 2024 in respect of Unaudited Financial Results for the Quarter and Half year ended 30th September, 2024.

This is for your information and record.

Thanking you,

Yours faithfully,

For Century Plyboards (India) Ltd.

Company Secretary

 **CENTURYLAMINATES**  **CENTURYPLY**  **CENTURYMDF**

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





Transcript

Century Plyboards India Limited Q2 FY25 Results Conference Call

November 15, 2024



Management

Mr. Sanjay Agarwal – Managing Director and Chief Executive Officer

Mr. Keshav Bhajanka – Executive Director

Mr. Arun Julasaria – Chief Financial Officer

Mr. Sumant Wattas – Chief Executive Officer, MDF business

SKP Securities Ltd

Navin B. Agrawal | Head, Institutional Equities

+91 98200 27446 | navin.agrawal@skpsecurities.com

Moderator: Ladies and gentlemen, good day, and welcome to Century Plyboards Limited Q2 FY '25 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the opening remarks conclude. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Navin Agrawal: Good afternoon, ladies and gentlemen. I'm pleased to welcome you to this financial results conference call on behalf of Century Plyboards and SKP Securities. We have with us Mr. Sanjay Agarwal, MD and CEO; along with Mr. Keshav Bhajanka, Executive Director; Mr. Arun Julasaria, Chief Financial Officer; and Mr. Sumant Wattas, CEO, MDF business. We'll have the opening remarks from Mr. Sanjay Agarwal, followed by a Q&A session. Thank you, and over to you, Sanjay Ji.

Sanjay Agarwal: Thank you, Navin Ji. Good afternoon, ladies and gentlemen. Welcome to the FY '25 Q2 earnings call for Century Ply. Before we begin, I would like to provide the standard disclaimer. This discussion will focus on the company's historical performance and future prospects and is not intended as an invitation to invest in the company. The results and analytical presentations have been shared with you and are available on the stock exchange website. I assume you have reviewed this, so I won't go over the figures in detail.

Despite ongoing challenges in the industry, especially building material industry with respect to raw material availability in timber segment and prices, our results are largely aligned with the guidance provided in our last call. The company has delivered ever highest quarterly top line, both in standard and consolidated level. On a year-on-year stand-alone basis, our total revenue rose from INR962 crores to INR1,063 crores, while consolidated revenue grew from INR997 crores to INR1,183 crores, reflecting a growth of 10.6% and 18.7%, respectively.

The plywood division reported an impressive year-on-year growth of 21.1% with EBITDA margins of 15%. Despite experiencing cost pressures from rising raw material prices, the EBITDA margin in the plywood segment has improved due to a favorable product mix and increased volumes. While we have revised our guidelines for H2 at 12% plus sales growth and EBITDA margins between 12% and 14%.

Though on year-on-year, there is a degrowth in the Laminate division, but on quarter-on-quarter, we grew from INR151 crores to INR161 crores in Q2. EBITDA margin reduced to 7%, mainly due to higher marketing spend in Q2. Our Andhra Pradesh facility is scaling up and will contribute to Laminate segment sales, supporting our growth outlook in the upcoming quarters. Our newly established MDF facility in Andhra Pradesh has shown remarkable progress, resulting in 75% year-on-year volume growth to the MDF segment in this quarter.

The facility is ramping up swiftly and we anticipate it to become EBITDA positive by Q3. While we foresee substantial growth, supply pressures in the MDF market will limit average

realization, but we expect over 40% value growth with some margin improvement in EBITDA. In the Particle Board segment, intense competition continues to pressure both average realization and raw material costs with many smaller players in the industry. We are establishing a continuous process facility to enhance quality and reduce costs slated to start operations by the end of this fiscal year.

We anticipate growth and profitability improvements once the facility is operational, though growth may remain flat until then and pressure on the margin side. Our PVC board facility in Andhra Pradesh is ramping up quickly, expected to contribute nearly INR100 crores in revenue over time. With that, I conclude my opening remarks, and we welcome any questions you all may have. Thank you.

Moderator: The first question is from the line of Utkarsh Nopany from BOB Capital.

Utkarsh Nopany: Sir, my first question is...

Moderator: Sir, sorry to interrupt you, but your audio is not coming clear.

Utkarsh Nopany: Sir, my first question is on MDF segment. So if we see like our -- realization for the new AP unit, it was down by around 20% compared to our stand-alone operation.

Moderator: Utkarsh, sorry to interrupt you once again. The audio is still not clear.

Utkarsh Nopany: So sir, what I wanted to know that our AP unit realization was down 20% compared to our stand-alone operation. So I wanted to know from you what would be the normal difference in realization on a sustainable basis in your viewpoint? And second is on sequential basis, our AP unit capacity has been ramped up with increase in our volume.

And the realization has also improved for our AP unit by 8% on a Q-on-Q basis. But still our operating loss has gone up from around INR11 crores in June quarter to around INR16.5 crores in September quarter. So what is the reason for the same sir?

Keshav Bhajanka: You see the Andhra unit right now does not have -- it was the second quarter where we had just started our Prelam unit, where we have just started ramping up value-added products. So because of this, the average realization is looking lower. The difference between the South and the North unit realization is unlikely to be very high. Sumant is on the call. Immediately after this, he will take that point up and he can tell you that what is likely to be the difference in realization.

Secondly, with regards to the quarter, you see in this, there is a forex loss that has gone within the operating metrics, even though the forex loss normally would be in capital, but because of historical treatment, we have put it in operating. If you remove the forex loss, the loss has reduced. And within this quarter, we will be EBITDA positive. Sumant, would you like to...?

Sumant Wattas: Yes, this is Sumant here. On the differential between CPIL and the South unit, for domestic sales, the differential will be actually quite minimal, maybe even less than 2% to 3% on an

ongoing sustainable basis on realization. You will see some differential on account of exports because we also export from our South unit, and that impacts the weighted average realization.

So net-net, I think between 5% to 10% differential largely on account of exports with almost parity in domestic. That's the kind of differential you can look at.

Utkarsh Nopany:

Okay. Got it, sir. And sir, my second question is on the laminate segment. Like our stand-alone sales volume was down by 10% on a Y-o-Y basis. which was not the case for the major peer, which has posted a growth in this quarter. And we are not able to ramp up our new unit for the last 3 consecutive quarters. Can you please explain the reason for that? And our realization was also down by 4.5% on a quarter-on-quarter basis in September quarter.

What is the reason for that? And what is our realization outlook for the second half of FY '25 for laminate segment?

Keshav Bhajanka:

So I think you put 3, 4 questions. I'll try to address all of them. The first was that, yes, in the current quarter, we have missed out on our volume guidance. The reason behind this is that we have seen weakness both in domestic as well as in export sales, but we have taken a number of steps such as new productions, such as increasing our sales and marketing footprint in terms of the team, increasing our supply chain and distribution network.

So I am confident that in the second half of the year, we'll be able to recover and grow at close to 10%. With regards to the realization, the realization drop is due to an adverse product mix. If you look at stand-alone basis, we are taking price increases in 1 mm and 0.8 mm. So this is just due to a changeover between the mix, higher-end products have sold less, low-end products are sold higher.

With regards to the Andhra unit, we are ramping it up. This is an export-based unit. So in this, it does take some time because first, we'll have to sample, customers will have to approve, then we'll have to make containers, then we have to get certification. So I am sure that in the second half of the year, you will see a much better realization from the Andhra unit, but it did take longer than we had expected to scale up.

However, second half of the year, we will be EBITDA positive at Andhra with healthier capacity utilization.

Utkarsh Nopany:

Okay, sir. And sir, my third question is on the Particle Board segment. So we have seen a sharp decline in the Particle Board segment margin on a Q-on-Q basis in the September quarter. And the 3 large capacities likely to come into production by this March quarter. So do you expect the margin pressure to increase further going forward? And how long it is expected to continue in your viewpoint?

Keshav Bhajanka:

Again, if you look at EBITDA without forex, we would be at 11%. The reason that the gross profit is seeming lower is on account of the same forex loss component that has been taken here, and this is something that we will correct going forward. However, in Particle Board, there is

definitely pressure. Once the new capacities come up, the advantage that we face is that the operating costs will be far lower.

We will have savings in terms of resin, saving in terms of raw material consumption, savings in terms of lower wastage. So all of those are going to aid us. But today, in terms of Particle Board margins, considering the higher cost of timber, yes, margins will be subdued till the new plant comes in. Hopefully, post the new plant, you will see a revival in margins.

Utkarsh Nopany: And sir, lastly, I just wanted a clarification on the guidance part. The EBITDA margin guidance, which you have given in the presentation for MDF and laminate for second half of FY '25, whether that is for stand-alone basis or consolidated basis?

Keshav Bhajanka: No. That is for stand-alone basis. In MDF, we would say that margins for consol basis would be 10% plus. The sales growth numbers are on consol, but the EBITDA margins are on stand-alone because it is difficult for us to put EBITDA margins till those realizations and that operating leverage comes in. So the EBITDA guidance is for stand-alone, but the volume guidance is for consol.

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

Bhavin Rupani: Sir, my first question is related to Particle Boards. Earlier, you had mentioned about reaching 50% to 55% utilization at the end of year 1 post commissioning. Now given that tough market conditions, elevated input prices and incremental domestic supplies, do we still believe we can reach 50%, 55% utilization at the end of year 1?

Keshav Bhajanka: Are you asking about Particle Board or MDF?

Bhavin Rupani: Yes, sir. Yes, sir, Particle Board.

Keshav Bhajanka: So the new plant that is going to be commissioned?

Bhavin Rupani: Yes, sir.

Keshav Bhajanka: So in terms of the new plant, one thing that we have to keep in mind is that this is a superior technology compared to the existing unit. So the second -- the new plant comes on board, we will actually have to take a shutdown of the existing unit. So in that sense, reaching 50% plus of the new capacity will be much easier because we have already had a starting point of 30% plus -- once the new capacity comes in, the existing capacity will be taken under shutdown. But yes, we are confident that we will be able to ramp up to 50% plus of the total rated capacity by the end of the first year of operation.

Bhavin Rupani: Okay. And sir, what about the new facility on a stand-alone basis, if we consider new capacity, by when do we expect it to reach 50%, 55% utilization?

Keshav Bhajanka: So that is what I was trying to say. It will actually be earlier because we will have a head start. Once the new capacity comes in, because the operating metrics are going to be far better, the

cost is going to be far lower. We will be taking a shutdown of the existing capacity. So we will only be running the new capacity. And the plant is likely to start production within Q4.

Bhavin Rupani: Okay. Got it, sir. Sir, second question is related to MDF. Can you help us understand what is the blended price of MDF right now? And what is the breakup of FOB prices, freight cost and custom duties?

Keshav Bhajanka: Sumant, would you like to take this?

Sumant Wattas: You're talking about imports, right?

Bhavin Rupani: Yes, sir. Yes.

Sumant Wattas: So look, imports landed net to customer right now are at about \$205 to \$208 per CBM levels. And you can assume port handling, custom duty to be about 5%, 7% of that. And freight would be another maybe 30% to 40% depending on what month we're talking about. It was very tight in June, July. In October, it has eased out a bit. But the net-net landing right now will be in the \$205 to \$208 per CBM mark.

Bhavin Rupani: Which turns out to be approximately INR18,000, sir? Is that correct?

Sumant Wattas: Correct.

Bhavin Rupani: And sir, the average domestic realization is INR25,600. So the difference is quite huge. So do we expect any price reduction in the domestic market?

Keshav Bhajanka: You'll be happy to know that we have just taken a price increase in the domestic market as recently as last week. So no, we don't expect any price reductions. And you must take into account that there are different grades, different categories of MDF. What you are speaking about is the lowest end of imported MDF. So that as a product is not even comparable to our DR, forget the rest of the category.

Bhavin Rupani: Sir. And what would be the price increase?

Keshav Bhajanka: Blended 3%.

Bhavin Rupani: Got it, sir. And sir, last question is related to laminates. You mentioned that there is an increase in marketing spends during the quarter. Is it possible for you to quantify what would be the marketing spends in Q2 versus last year?

Keshav Bhajanka: Okay. Marketing spend for Q2 would be lower -- sorry, for H2 would be lower than H1. But the exact data, I don't have it ready on me. I think Vinay or the CFO can get back to you with those details.

Bhavin Rupani: Got it. And what would be the utilization for our new AP laminates plant?

- Keshav Bhajanka:** We would be looking at clocking in 50% plus utilization towards the second half of the year.
- Moderator:** Next question is from the line of Amit Purohit from Elara Capital PLC.
- Amit Purohit:** Sir, on the plywood business, our volume growth has been very strong. And even if I look at the first half number has been upwards of 15%, closer to 16%. So -- and we are looking at in second half close to about 12%. Any reason -- I mean, we've been seeing that first half, most of the building material companies and in consumption, there has been a slower growth. In fact, second half is when the growth is expected to be very strong.
- So just 2 parts to this question. One, what is driving this growth? Any -- and second, for us? And second, why a conservative guidance in the second half?
- Sanjay Agarwal:** Yes. See, the industry has been passing through a bad phase, the whole of building material industry. And what we decided in the beginning of the year that we have taken a total growth of 14%. So we could motivate the whole force that we should now do our best in the first half. So they have tried their best and actually, we have achieved more than what we can actually expect usually. So usually, whenever all these things happen and the industry growth will catch up somewhere.
- So we are being a little conservative and practical, I should say. And that's why we are saying that in the next part of the year, it will not be exactly what we could achieve in the first part of the year. But yes, average, what we have predicted, we will be able to achieve the growth we predicted for the year. And the EBITDA call -- so right now, the EBITDA is also a little higher at 15%.
- But we still believe that by the end of the year because, again, the prices of raw material may rise, they have stabilized now and they are not rising for some time. But still, you never know because when the industry is passing through such stage of raw material rise and fall, these are absolutely out of our control. So that's why we still say that it will be somewhere between 12% to 14% for EBITDA also.
- Amit Purohit:** Okay. I am sorry, I might have missed out on if you have answered this, but the laminate performance, if I look at the stand-alone business also reported a decline. Any specific reason? Because, I mean, I would presume that if plywood is doing well, then laminate should also do well. Any competitive intensity increasing or any?
- Keshav Bhajanka:** Yes, competitive intensity in the industry has increased, and we have lost market share in domestic as far as laminate is concerned. Even in export, the traction that we expected, we have not gotten the same. So I think this is a transition period. But going forward, we are confident second half, we will deliver on 10% plus growth and our margins would also be on guidance.
- Amit Purohit:** And so then what would -- what are the steps? I mean, just to try to understand better what -- because, I mean, in first half, if I look at our volumes on a stand-alone basis are also down high single digit. And then we are talking about double-digit growth. I understand the new facilities

will help us in achieving that. But what changes we would have taken in terms of whether it is on the trade schemes or better incentives or branding side, what are all the changes that we have done?

Keshav Bhajanka:

Firstly, we have increased our feet on street substantially. We have added a much larger team, and that enables us to reach out to more customers, to more influencers, to more dealers. So I think that for the past couple of years, we had limited our feet on street. This is the first time that we have taken such an aggressive expansion in the manpower. So I think that is the first step.

Secondly, we have launched our new catalog. The last catalog did not get us the traction that we had wanted to. So we have refurbished and launched a new catalog within last quarter. Due to the fact of launch expenses, you're seeing a much higher marketing expense, but this is going to aid us in terms of volumes.

And already, the response from the market has been very good. Alongside this, we have increased our supply chain network. We have opened 3 new RDCs, and this is going to help us gain a lot of market share in those 3 locations. So I think all of these steps are going to help us in gaining market share back and hitting our growth targets.

Amit Purohit:

Okay. And last on the MDF. When I look at the stand-alone business, our gross margin sequentially declined, even gross profit per CBM also declined. I mean I understand there has been increase in cost, but now we are talking about the price increase. So would you presume that -- I mean, you have guided for a better margin in the second half, but that would be largely on the stand-alone, right, this 15% margin.

Keshav Bhajanka:

We are going to be looking at a higher margin in both. But stand-alone, yes, we'll be working to get back to 15% plus margin. Even for our new unit, I think that from this quarter, we will turn EBITDA positive and towards the second half of the year -- sorry, second half of the quarter, that means in Q4, we will be looking to hit double-digit EBITDA numbers. But on a conservative side, 15% plus should be our EBITDA figure for stand-alone. And our attempt will be that we'll deliver 10% plus consol for H2.

Moderator:

Next question is from the line of Sneha Talreja from Nuvama.

Sneha Talreja:

A couple of questions from my end. Sir, I just wanted to check with you on BIS time line. Is there any revised guidelines which are coming up? Or are players actually getting BIS licenses? So some status there would be helpful.

Keshav Bhajanka:

So as of now, the latest update is that it is all status quo. February, BIS is likely to be implemented. And we, as an industry, are taking all the necessary steps to ensure that BIS implementation does not get deferred again. In all likelihood, February is when you will see BIS come into effect for all our products.

Sneha Talreja:

Understood. Secondly, on an extension to one of the previous participant's question on the laminates front. I wanted to check that what has really changed? Like even this quarter was

slightly on the muted side, which you mentioned. But even if I see your presentation, the revised guidance stands much lower than what your earlier expectation was. So why there is a significant change in terms of laminates revision in guidance?

Keshav Bhajanka: We failed in the first 2 quarters. And we need to course correct and we need to make sure that the reasons that we have identified, we have taken steps towards it. But the traction that we are expecting on the ground, it is taking longer. We are confident that we have taken the right steps, but this recovery is not as quick as we had thought. So for that, the numbers are conservative. But I'm sure that we will at least deliver upon these and then build on it for next year.

Sneha Talreja: Understood. And thirdly, on laminate side -- sorry, on the MDF side, this quarter, we have seen plywood growing on a Q-o-Q basis, your other Particle Board growing on a Q-o-Q basis, but the MDF has actually seen a drop on a Q-o-Q basis. This is despite your new plant commissioning and ramping up.

Keshav Bhajanka: Sorry, sorry, -- there's some mistake. MDF, there is no drop. MDF, the volume growth has been substantial.

Sneha Talreja: Okay. On the volume side.

Keshav Bhajanka: If you look at consol, yes. If you look at the consol numbers, then the volume growth has been tremendous. I think it is 50% plus volume, consol volume previous quarter. Yes. So console, the volume growth for this quarter is showing at 75%.

Sneha Talreja: Okay. I'll just relook at the number, sir.

Keshav Bhajanka: Yes.

Moderator: Next question is from the line of Abhishek Ghosh from DSP Mutual Fund.

Abhishek Ghosh: Yes. Sir, if you can just help us quantify the exact forex loss, which was there in the entire P&L because when we go through the segmental numbers, there is an element of forex loss in every segment. So if you can help us give us a consolidated number?

Keshav Bhajanka: Just one second. Vinay? forex consolidated number. Segment-wise, you can see it as a difference between the EBITDA and the EBITDA after other than forex but...

Abhishek Ghosh: Broadly INR11 crores, INR13 crores would be the number. Would that be a fair estimate?

Keshav Bhajanka: It is INR10 crores plus for sure. I think it is in PPT, what is the number? Abhishek, I think Vinay from our team or the CFO will get back to you on this immediately.

Abhishek Ghosh: Most of the loss is because of the capital investment we have made and we have imported machinery in our new plant in panel, Century panel. So according to me, we should not think that this is actually revenue loss or -- but it is a long-term loss, of course.

Keshav Bhajanka: But sorry, just to correct again. here, the euro has actually corrected. So from last quarter, the loss -- the nominal loss that was there actually will show as a profit in this quarter. So I think that is what you want to understand, right? What is the extra profit that will come in the current quarter. So that -- Vinay would be able to get back to you.

Abhishek Ghosh: I was actually trying to see normalized margin. So that is why I was just trying to look at the forex number, but I'll probably take...

Keshav Bhajanka: EBITDA without forex, for instance, in the stand-alone is slightly higher and the consol -- higher the consol. Abhishek, Vinay will get back to you with this data. We don't have it readily but we will get it in the next 15, 20 minutes.

Abhishek Ghosh: No. I'll take it offline. The other thing about -- I think a lot has been talked about MDF and other things, but let me also take this opportunity to congratulate for the way you have executed on the plywood part of it, I think given where the industry is, you think that this competitive edge of taking market share, both from the unorganized and organized given that you have invested into the business over the last 4, 5 years.

This is likely to continue from here on. And at some point, the market demand also turns favorable. Just your thoughts on the plywood segment part of the business.

Sanjay Agarwal: So basically, in plywood segment at some time, we will -- we were at about 4%, 4.5% market share of the total market. With the launch of Semi and with progress in our Club Prime, today, we are at about 8% of the market or 8-plus percentage. Our actual target is to reach much, much higher and become -- within in our minds and hearts, we feel that yes, now we are a successful, really good brand in the market.

So anything below 13%, 14% is not digestible by us. So we are working towards it, but it is taking time. And I think only thing I can say right now with the market conditions in building industry that, yes, we are trying our best, and it will happen in time to come. And we will keep on progressing whether slow, sometimes fast. You have seen even in the past, you see there has been times when we have been slow because of the market conditions.

But whenever we got a chance, we have accelerated in a particular period and gone beyond actually.

Abhishek Ghosh: Sure, sure. And sir, any thoughts on the timber side? Does the cycle continue for another 12 to 18 months? Or are there any updates on the timber prices can be soften before that? Any thoughts?

Keshav Bhajanka: Abhishek, currently, timber prices are still on an upward trend. In the North, while the pressure is not that high in the South, there is a acute shortage of timber. Sumant will be able to guide on this further. But I think that the timber issue is not -- is likely to continue for 12 to 18 months, as you said. The new plantations that are hitting also, the demand is growing at a faster pace.

So this is not something that will go away in the short or the medium term. It will take its time. In the meantime, however, we have been able to take price increases, which I think is a very positive step because that is the only way to deal with the higher raw material cost. Sumant, would you like to elaborate?

Sumant Wattas: Keshav, I completely agree with your assessment. I think the timber pressure will continue. In North, hopefully, things will stabilize sooner. In South, I think the situation will continue for at least another 9 months.

Abhishek Ghosh: Okay. And -- in the plywood segment, have we taken any price...

Sanjay Agarwal: I was just going to speak about the plywood segment. In plywood segment, the timber prices are stable. They are not increasing because now a lot of import is happening, which has actually now stabilized the prices in the market as far as the raw material for plywood is concerned. And we had taken a price rise, last time -- Vinay? Price rise we have taken in plywood.

Management: 2% is from 1st of August.

Sanjay Agarwal: From 1st of August? From 1st of August, we have taken 2% which we have implemented fully and further price rise is there in our mind, but we are yet to decide. We don't want to hit the kind of growth we are making and the markets are not so well. So we are rethinking and thinking. So still the price rise further is not decided. But the raw material prices have now stabilized as far as plywood is concerned.

Abhishek Ghosh: Okay. Sir, in terms of MDF, 6 months back, 12 months back, we were hearing many players looking to announce MDF expansion given where the profitability curve today is, is there a change in stance as far as the industry is concerned? And how should one look at the supply of MDF over the next maybe 18 months? If you can just help us at the industry level, that will be helpful.

Keshav Bhajanka: Abhishek, I think one competition is coming up with a line for thinner material. Other than that, I don't think anybody at this point is contemplating any sort of MDF capacity. I think that like you correctly said, today, based on these ROCEs, I don't think anybody would be looking to enter the market. And this will -- where the EBITDA margin reached 30%, 35% plus, everybody sees this as a gold mine.

But now that it is corrected, suddenly the industry does not seem so prosperous. So currently, we are not expecting any capacity additions, any further capacity additions, I mean. And now it is a question of demand catching up to supply, which will play out, say, over the course of next 12 months.

Abhishek Ghosh: And MDF demand do you think is growing at broadly 15% plus? Or has that also kind of moderated?

- Keshav Bhajanka:** Again, we don't have any authenticated numbers, but I would say that MDF demand would be growing at anywhere between 15% to 20%.
- Sanjay Agarwal:** This is evident plant performance also.
- Keshav Bhajanka:** From the ramp-up we have done in the South, you can see that the market for MDF is growing.
- Abhishek Ghosh:** Sure. And sir, what about the South plant? What is it -- what is the utilization for our southern unit for the MDF today?
- Keshav Bhajanka:** Utilization for the South plant, just one question.
- Sumant Wattas:** Abhishek, it's about 50% plus already. So our capacity is around 20,000 CBM per month, and we are already doing around 12,000 CBM of sales from that plant. So it's 55%, 60%.
- Keshav Bhajanka:** Abhishek, I think that you are thinking of the capacity is going to increase once the extension comes into play. The extension will take another, say, 2 quarters. Post that, the capacity will increase further. This is based on the current capacity without the extension.
- Abhishek Ghosh:** Okay. So is it fair to assume whatever the current quarter's MDF volume you have done on that about 12,000 to 14,000 CBM per month of volume can be further enhanced whenever you ramp up to the full utilization. Is that the right way to understand?
- Keshav Bhajanka:** Yes. I think we will be able to do at optimum capacity utilization, Sumant, please correct me, the 24,000 to 24,500 CBM per month.
- Sumant Wattas:** Absolutely, Keshav. Correct.
- Keshav Bhajanka:** The other thing is extension is put in place.
- Abhishek Ghosh:** That is by end of FY '25?
- Keshav Bhajanka:** That will be by -- over the course of the next 2 quarters, let's say.
- Abhishek Ghosh:** Okay. Got it. The other thing is if you look at your employee expenses, that's increased by almost 29% on a Y-o-Y basis because we are investing a lot into these newer facilities while they have not all ramped up. So you think about 50 bps to 100 bps of margin improvement over the next 18 months can come in because of operating leverage and employee spend not increasing at a similar proportion to that of revenue? How should one look at that thing?
- Keshav Bhajanka:** You have this habit of putting us in a difficult position. But yes, definitely, with operating leverage because we have invested and we have overinvested right now to ensure that we are ready when the capacity is coming. Over the course of the next 2 to 3 quarters, you will see operating leverage play out, and that will definitely lead to higher margins.

Abhishek Ghosh: Okay. And one last thing. In terms of cash flows, how should one look at the deleveraging part of the business now that you've incurred major part of capex, your working capital are also elevated in the current quarter. How should one look at deleveraging from here on given that a lot of the capex has already been incurred?

Keshav Bhajanka: By Q4, once the Particle Board plant comes on stream, then our capex cycle is pretty much over. I mean there will be a small addition in terms of plywood, but that is not going to be very capex intensive. So from there, every quarter, you see deleveraging taking place. And I think cash flow generation from next year onwards will be quite good. So we'll be able to get rid of the debt within, say, a period of 12 to 18 months.

Abhishek Ghosh: Okay. And do you see imports of MDF likely to increase in anticipation of BIS? Is that something that you're seeing in the marketplace?

Keshav Bhajanka: It could be but Sumant, I think you would answer that.

Sumant Wattas: Look, if you just look at the last 2 quarters, Q1 was quite tight on account of the shipping prices. I mean, typically, the MDF imports are 25,000 to 30,000 CBM per month, but Q1 was more like 15,000 to 20,000. Q2 was even lower. We saw a little bit of uplift in October, but it's not yet back to the 30,000 CBM per month level. So I would say it will be still muted as compared to last year. But a little bit of pressure has been released from Q3 onwards. There will be a slight increase, but not back to earlier levels of last FY.

Moderator: Next question is from the line of Tushar from KamayaKya Wealth Management.

Tushar: Sir, in terms of realization, if we compare our peers, I think your realizations are higher in terms of MDF. So just wanted to know like as there is a huge capacity coming on stream in MDF in pan-India basis. So will you maintain that dominant position going forward? And how are you seeing the market of MDF considering the imports and all your take on that sir?

Keshav Bhajanka: Sumant, would you like to take it?

Sumant Wattas: Yes. Yes, sure, Keshav. I wasn't sure which one is answering. Let me take that. I think ED spoke of this before. Right now, of course, there's a little bit of oversupply. But in this cycle, demand is still quite robust, right? So we see MDF, we are very bullish on the MDF demand. I think it will be in the 15% plus range in the times to come because fundamentally, it's a robust product and has a wide application base. So that's -- from a demand perspective, I think things look good. Also from a supply perspective, like Keshav mentioned, new supplies or new capacities will now actually slow down. So therefore, demand catching up to supply will also play out in the next 12 to 15 months.

So I would say, overall, the segment is poised for good growth, both from a volume and a value perspective. And in terms of realization, I think the third question that you asked, because of this scenario, we are pretty confident that realizations, we hope to maintain full position and leadership on the realization front on account of the macro picture.

As well as because we continuously invest into high value-add products, which also help us beat some of the imported materials and the unorganized players in the segment.

Tushar: Got it, sir. And sir, in terms of growth for next financial year, like post -- if I ask maybe from Q4, how are you seeing the Q4 vis-a-vis the last Q4?

Keshav Bhajanka: I think we have already taken our guidance because -- in the investor presentation itself. So in H2, we believe that we will have 12% growth in plywood. On a consol basis, we will have 40% growth in MDF, 10% in laminate and Particle Board flat. So this is our guidance for H2.

Tushar: Fair enough. That was helpful.

Moderator: Next question is from the line of Rishab Bothra from Anand Rathi Shares and Stock Brokers.

Rishab Bothra: Two, 3 things. One, what will be our capacity starting FY '26? Because you mentioned one of the facility, one of the segment will -- old plant will shut down and new capacity will come up. If you could provide segment-wise capacity FY '26?

Keshav Bhajanka: Capacity, would you like to? So basically, the new capacity will come on board for Particle Board, and that will be 800 cubic meter per day production unit. Currently, we are at 250 cubic meter capacity. So that is going to be a ramp-up that takes place. We'll be going from 250 to 1,050. But in all honesty, the existing unit will then be shut. So we'll be looking at an effective capacity of 800 cubic meters per day for Particle Board.

Rishab Bothra: Got it. So 1,000 plus will be available for '27?

Keshav Bhajanka: Yes.

Rishab Bothra: Okay. And sir, in respect to raw materials, can you help me wood chips or wood waste is used in Particle Board as well as MDF and raw timber is used in plywood?

Keshav Bhajanka: No. So today, in plywood, you will use the higher girth of timber, whereas in MDF and Particle Board, you will be using timber that is of a lower girth. So in plywood, the minimum plantation cycle used to be 6 to 7 years for eucalyptus and it is planted in a different way with only 500-plus sapling per acre, whereas for MDF Particle Board or for paper, the typical plantation cycle is 1,100 sapling per acre and the tentative time line is 4 years. It can be 3 to 4 years also.

Rishab Bothra: And with respect to cannibalization, which are the segments you see in furniture cannibalizing one another? Let's say, earlier, it was made of plywood, now completely made of MDF or Particle Board. So demand for that segment for plywood will reduce. What's your sense?

Keshav Bhajanka: India's plywood capacity today would be close to 10 million cubic meters. China's current capacity for plywood is close to 170 million cubic meters. So we are at a very, very early nascent stage as far as this industry is concerned. So while cannibalization will take place, I believe that all our segments are going to grow.

Of course, MDF and Particle Board because of the extremely low base are going to grow faster, but I am fully confident that we'll see sustained growth in plywood as well. We are right now at close to 120th of China's capacity. So we are not at that stage yet.

Rishab Bothra: And last question, by when do we see tapering of debt? I mean, peak debt will be FY '26?

Keshav Bhajanka: So like I said, again, from the end of Q4, you will see debt reduction on the books quarter-on-quarter.

Moderator: Next question is from the line of Udit Gajiwala from Yes Securities.

Udit Gajiwala: Most of the questions have been answered. Sir, just one thing, the growth that we have seen in plywood, it's very commendable and I'm sure that we have been gaining market share. So is this more to do with the timber issues that are there right now, which is technically unorganized? And like you mentioned that your target for your own market share is way higher than like the current 7%, 8%.

So incrementally, what will be the steps? I know it's a very longer view question for you to answer maybe. But just some light that you can throw like consistently, how can we grow our market share in such an industry that is dominated by unorganized.

Sanjay Agarwal: So see, we have been growing and we have been increasing our percentage. And a few years back, we were saying that we are about 4%, 4.5% of the market. Now we are 8.5% or about 8.4% of the market as far as plywood is concerned. So consistently, we have grown. But yes, if I see, yes, there could be some support from the raw material availability. Some of the local manufacturers, small manufacturers may not be getting enough raw material.

And we -- because we are able to import in large quantities, we are having able to manage the quantity enough. But that may be to some extent. But otherwise, you see we have seen that every 2, 3 years, we get a chance where we -- all our -- whatever we have done, we are able to focus on certain parameters or actions we have taken in the market. And those parameters actually help us.

Right now, also, we are working on certain parameters. So earlier, all experiments have been completed and we have found where and how to operate. We are now trying some new things in the market. So those things, again, even if one of them succeed, that will give us a push maybe in another 1 year or in another 2 years' time, again, that will give us a big push actually in the market. So it is a combination, you can say that, yes, the raw material availability makes a difference to us.

But otherwise, because of our push and our new, new things, we are really -- I'm unable to speak about those efforts absolutely right now. But earlier, all the efforts we have done, some of them failed, some of them have really succeeded and given us the results we have right now.

Udit Gajiwala: Understood, sir. Got it. And sir, lastly, on the MDF front, like you mentioned that there are no major capacities now coming up post this fiscal. So do you see some tapering off in the kind of small hanger that you put in the price war that is going on to grow market share, then we may see some price sanity coming across by all the players?

Sanjay Agarwal: I think it has to. Market share, we are already gaining. If you look at the quantity, the growth in the H1 is about 75% compared year-on-year. But yes, price sanity in the market should come, but the raw material is eating up right now actually. Otherwise, even these prices would not have been really bad for us. So the future is good because the raw material prices have to go down maybe 1 year, 1.5 years, 2 years, it has to go down.

And the market has to improve because not much capacity is coming up. I think except green, one capacity, to my notice, at least there is no other capacity coming up.

Moderator: Next question is from the line of Utkarsh Nopany from BOB Capital Markets.

Utkarsh Nopany: Sir, my question is on the MDF sector. So like you have mentioned that we are towards the end of the new capacity addition in this space and the excess supply may likely to get absorbed over the next 12-month period. So just wanted to know whether the large capacity addition, which is going to come in Particle Board category is likely to delay the recovery in the MDF industry demand supply fundamental as the low-end particle demand could be catered by the high-end Particle Board product category.

Keshav Bhajanka: I think you need to look at it a little differently. Each of these are individual segments. I mean, yes, it can be substituted, but each have their own markets. So today, Particle Board capacity being added will not have a detrimental impact on MDF. Both markets are likely to grow. Again, I'll take China as an example, which has maybe 160 million, 170 million cubic meter of plywood capacity, 50 million to 60 million of MDF capacity.

And 45 million to 50 million of Particle Board capacity. So today, these segments are not really going to impact each other that much. But yes, there is growth, and that is why these capacities are coming in. The market is growing that there is no doubt for all product categories. all 3 of these product categories.

Utkarsh Nopany: No, sir, I understand your point from a long-term point of view because why I was asking because the other company which is also coming up with the Particle Board plant, they are saying that they would try to tap the low-end MDF category, which can easily be substituted by their high-end product Particle Board. So maybe for the next few quarters, whether the large Particle Board capacity addition could result into pricing pressure for the MDF sector, sir?

Keshav Bhajanka: Again, the lowest category that you are talking about, practically most of the organized players are not in that category. The import substitution material, that is a much, much lower grade material. And that in all likelihood is going to impact the imported -- the people who are importing MDF because you see it is a lower density material, the material will not pass BIS standards.

So in that Particle Board could substitute. But as a branded player, I cannot manufacture the material. So for me, it is not likely to impact.

Utkarsh Nopany: Okay. And sir, lastly, like if you can give me some sense, like what would be our estimated net debt at the end of March '25? And what would be our average depreciation rate policy for our new capex?

Keshav Bhajanka: The depreciation policy will remain consistent. We are not going to change our depreciation policy. In terms of debt, I think we have already put it in the investor presentation. But for further details, the CFO can clarify to you offline.

Utkarsh Nopany: For depreciation, sir, like our depreciation rate has been consistently going down. So for that reason, I just wanted to know what is the kind of depreciation rate we assume for the new capex sir?

Keshav Bhajanka: Depreciation rate has been going down. I second...I think depreciation rate going down could be because some machines are fully depreciated rather than that, the CFO is on call -- just one second. So our CFO will connect with you offline and clarify -- we won't have that data readily available.

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

Arun Baid: So sir, the question was more for the MDF segment. One, we heard that there were some price cuts taken in Q2, specifically in South India. Is that correct? And if yes, is this price hike taken up 3%, does it compensate for whatever adjustment was done in Q2?

Keshav Bhajanka: I think you can treat this as out and out price increase. I don't think Q2 saw any meaningful cut. So this is a pure play price increase, and this is not South India. This is pan-India, what we have taken right now. It's a blended 3% increase. Some markets will be more, some markets will be less.

Arun Baid: So from Q3 onwards, effective, let's say, in Q4, on a like-to-like basis, we should be seeing the blended prices going up at least by 3% to 4%, right, realization?

Keshav Bhajanka: Definitely. Yes.

Arun Baid: And second thing is one...

Keshav Bhajanka: What the MD used to say is with timber prices coming up, competitive pressure continues to remain.

Arun Baid: And sir, next year, this year, you'll have the plant extensions, which you mentioned about in MDF. So what's the kind of utilization we should look at from the MDF business, specifically for AP plant next year because North plant is already running at full utilization?

Keshav Bhajanka: AP, we will -- I would say we will comfortably be at 80% plus utilization for the whole of next year.

Arun Baid: And assuming timber stays where it is because next year, timber prices, as you're saying, might come down, if not -- or at least stabilize, then what can be the margins or EBITDA per CBM we look at from this business next year, I'm sorry, FY '26?

Keshav Bhajanka: It is difficult for us to predict that right now as the MD just said, but we have given you guidance for H2, and our endeavor will be to deliver on that without saying to exceed that. Going forward, we have said that MDF is a cyclical business. But overall, if you see any 5-year period normally gets you close to a 25% EBITDA.

Arun Baid: So next year, we should be way better off than our North plant, which is at 15% guidance, we should be much better than that in the AP business because at 80% utilization, we should be more than 18%, 20%.

Keshav Bhajanka: Right now, I am not giving any guidance for next year. But with the statements, I have said that H2, we will meet and deliver on our guidance and next year should look better. That's all I can say.

Arun Baid: And sir, the laminate business, which you mentioned, so next year steady-state basis, how do you look at the AP plant ramp-up?

Keshav Bhajanka: I think next year, AP plant will be at a very good capacity utilization. We have done the initial steps. We have seeded the market. We have approached new customers. We have expanded our base into Europe. And there are a number of steps that have taken place, but it takes time to play out. Next year, we will be at a good capacity utilization as far as the Andhra unit is concerned.

Arun Baid: Yes, sir, when you said good, sir, would we be at 60%, 80%, how should we look at it?

Keshav Bhajanka: We will be at 2/3 plus.

Moderator: Next question is from the line of Amit Kumar from Datamine Investments.

Amit Kumar: Can you hear me?

Sanjay Agarwal: Yes, absolutely.

Amit Kumar: Just one question. For first half or for second quarter, whichever you have data available, could you please help break down the revenue growth in terms of domestic versus exports, especially given the ramp-up in the AP.

Keshav Bhajanka: We don't share that data. Unfortunately, we don't share that data.

Amit Kumar: Could you at least sort of just help us understand qualitatively good exports, given the fact that the ramp-up in the AP unit has been significantly higher now, and that's an export-oriented unit.

- Sanjay Agarwal:** Regarding MDF...
- Keshav Bhajanka:** No. Regarding laminates, going forward, we are going to see good traction in exports. So the growth rate in exports is likely to be higher than growth rate in domestic. This is due to the fact that, as you rightly mentioned, the Andhra capacity is predominantly an export-based unit.
- Amit Kumar:** In terms of MDF as well?
- Keshav Bhajanka:** No. MDF, we have the ability to export from Andhra, but the unit has been designed for the Indian market only.
- Amit Kumar:** Okay. So again, quantitatively, in the first half at a broader sort of company level, quantitatively -- sorry, qualitatively, at least can you sort of say that your exports would have been higher than your domestic -- like significantly higher, will be moderately higher.
- Keshav Bhajanka:** In the first half of the year, there would be status quo. There would not be much change.
- Management:** Somebody asked the question about the total forex loss for the quarter. On a stand-alone basis, it was INR1 crore approx. And on a consol basis, it was INR13 crores approx.
- Moderator:** Next question is from the line of Karan Bhatelia from Asian Market Securities.
- Karan Bhatelia:** Sir, just wanted to understand the capacity expansion plan for the plywood industry for us, given the fact that the Punjab unit is already delayed.
- Keshav Bhajanka:** In plywood, you see we have the ability to go beyond rated capacity. So currently, there is no scarcity of material because, as you know, the rated capacity is based on 6-day working and plywood we can go beyond the same. Having said that, the decision to defer is only because we are looking at which is the best potential location to set it up. I think we are making good progress on that front also.
- And before the end of this financial year, we will close the decision of where to set up the unit. Post that, I think we have the ability to execute and put up the unit within a short time span.
- Karan Bhatelia:** Right. Short time span -- it could be less than a year?
- Keshav Bhajanka:** Yes, less than a year, definitely.
- Karan Bhatelia:** And second question on Sainik Laminates. How do you see that product category? How is the distribution? How is the pricing and the margins over here? Qualitative comments would be helpful.
- Keshav Bhajanka:** Yes. We are at a very nascent stage. We have only launched in certain geographies and the traction we have seen has not been good. So we are working towards it. But again, it is a competitive market. However, considering we are only in the one category in Sainik Laminates, when we scale up, it will be a profitable product.

Karan Bhatelia: Right. And the presentation, Q2 estimates, which you've shared that growth is on a Y-o-Y basis, right?

Keshav Bhajanka: Which one, sorry?

Karan Bhatelia: The presentation, the table that you mentioned for second half growth across categories. Volumes, that is on the Y-o-Y comparison, second half to second half.

Keshav Bhajanka: The growth numbers are Y-o-Y and for consolidated. The EBITDA for stand-alone because it is very difficult to predict the EBITDA for the new units until we see operating leverage there.

Moderator: Next question is from the line of Bhavesh Jain from DB Investments.

Bhavesh Jain: Help me understand regarding the raw material prices. So if I recall in the call, you mentioned that RM prices for plywood have been stable. But for MDF, it has been increasing on the higher end. So can you just explain why there is such a difference?

Sanjay Agarwal: See, as far as plywood is concerned, we are able to -- because it's a higher-priced material finished good also, and we are able to afford a higher price of timber. From the very beginning, there was a big difference in the price of MDF and plywood because MDF timber takes about 3 to 4 years to grow and plywood timber takes about 6 to 7 years to grow.

The plantation -- timber is the same, the quality of the plywood -- spec is the same, but actually, they are planted a little differently. So this is the first reason. The second reason is in plywood, we are able to import now our raw material from Vietnam, from African nations, even up to Brazil also, we are able to import.

And the prices may go down a little bit if the sea freight comes down actually. Right now, because of the very high sea freight, we are facing certain higher costs. But still, it has stabilized. Even the local people are unable to increase their prices for plywood. But as far as MDF and Particle Board is concerned, that timber is the same timber which the paper units consume.

So basically, this timber plantation in India was -- the movement came because of ITC and BIMCO. So they were the ones to bring the plantation thing to India. And now all the paper industry and MDF industry depends on the same kind of timber. That is why there is a higher competition out there.

And first few years because the raw material prices were low, the plantation did not happen, say, for 2 years or 2.5 years, the plantation did not happen. That's why we have already seen about 1.5 year or 2 years of higher prices of timber. I think the higher prices may last about a year more and then it has to start coming down.

So that is the basic difference between the 2 kinds of timber and the reason for higher pricing.

Bhavesh Jain: Okay, sir. So if I got it right, the supply glut is more on the second type of timber, which is used for MDF, the lower plantation cycle which has.

- Sanjay Agarwal:** The demand there is more, but the main difference is this timber quality we are unable to import for MDF and for Particle Board, we are unable to import. That's why the local timber is still lower than the import cost. But in plywood, the import cost and the local have come equal. So that's why the local prices now cannot go up.
- Moderator:** Bhavesh, do you have any follow-up question?
- Bhavesh Jain:** No.
- Moderator:** Next question is from the line of Pranav Mehta from Equirus Securities.
- Sanjay Agarwal:** Good afternoon. How are you?
- Pranav Mehta:** I am good.
- Sanjay Agarwal:** Your information keep helping us actually.
- Pranav Mehta:** Yes. So just one question with regards to the upcoming proposed capacity addition of formaldehyde resin for developing in-house resin. So just wanted to ask like how much of our resin requirement is expected to be fulfilled via this upcoming capacity? And what is the potential for reduction in our resin cost, if any?
- Keshav Bhajanka:** So we are taking -- the capex is planned for 100%, but we are still deciding how much we will start off with. And the resin savings, we will have to figure it out as it goes, but there should be a definite saving. The main issue is that resin quality now has become a challenge. And I think it is a challenge for most players because the manufacturers are very small-scale units.
- So there we have been seeing in the recent past, the quality standards are not be maintained. So that has pushed us to this step. There should definitely be savings, but more than that, the quality and consistency of product will improve through setting up this unit.
- Moderator:** Next follow-up question is from the line of Rishab Bothra from Anand Rathi.
- Rishab Bothra:** Yes. Sir, in the Board meeting, we approved resins and formaldehyde plant at Hoshiarpur. So any other backward integration which we are planning? And why have we opted for this? Are there pricing increasing at a faster pace?
- Keshav Bhajanka:** Like I just said, the reason that we have opted for this is because of consistency of raw material. We are seeing this as a challenge going forward. And hence, we are setting up the infra and we are ensuring that for us, quality should not become an issue. It should not be that because the smaller unorganized resin manufacturers, we face an issue in the market. That is the main objective. However, I am pretty confident that there will be a saving in this system. Currently, there is no other backward integration that we are looking at.
- Rishab Bothra:** Okay. And this will be utilized, I mean, complete requirement will be sourced from in-house?



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- Keshav Bhajanka:** Yes. In a gradual phased manner.
- Rishab Bothra:** Yes, that I understood.
- Moderator:** As there are no further questions, I will now hand the conference over to Mr. Agarwal for closing comments.
- Sanjay Agarwal:** Thank you. Thanks, everybody, for their time and interest in Century Plyboards India Limited. And we look forward to a very good winter in front of us. We hope everybody will enjoy, be healthy, and we look forward to the growth of India with Trump coming in USA, everybody says that, yes, India will have a more favorable time. So we look forward to that also. And looking forward to see you all in Q3 FY '25 call. Thank you.
- Moderator:** Thank you very much. On behalf of SKP Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.
- Sanjay Agarwal:** Thank you.