"Century Plyboards (India) Limited Q3 Financial Year 2015 Earnings Conference Call"

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Management:	**Mr. Sajjan Bhajanka – Chairman – Century Plyboards (India) Limited** **Mr. Arun Julasaria – Chief Financial Officer – Century Plyboards (India) Limited**
Analyst:	**Mr. Achint Bhagat - Associate - Ambit Capital Pvt. Ltd.**

Moderator: Ladies and gentlemen good day and welcome to the Century Plyboards Q3 FY 2015 Earnings Conference Call, hosted by Ambit Capital. 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 please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Achint Bhagat of Ambit Capital. Thank you and over to you Mr. Bhagat!

Achint Bhagat: Good afternoon everyone and thank you for logging into the call. We have with us here today the management of Century Plyboards led by the Chairman Mr. Sajjan Bhajanka and the CFO, Mr. Arun Julasaria. Now I request the management to take us through the key highlights for the quarter following which we will open up the floor for questions. Over to you Sir!

Sajjan Bhajanka: Thank you Achint. Good afternoon friends, I am Sajjan Bhajanka, Chairman of the company and our CFO, Mr. Arun Julasaria, he accompanying me in welcoming you all.

Third quarter results have been published yesterday. The company is well on track and is consistently booking growth in both topline and bottomline. With GST optimism and new governments encouraging policies towards development we are expecting huge opportunity in coming time. We feel in future demand will not be a constraint rather we are worried about the supply so now we are augmenting our capacities and we are constantly trying to increase our infrastructure so that when the demand growth is there we are capable of supplying material and in order to do that we are now going beyond the boundaries and already we have started one unit in Myanmar you know last year and we have also initiated another unit in Laos which is likely to commission in the month of March this year itself. We are also exploring the possibility of setting up units or acquiring the units in some timber based units like Africa, Indonesia, Malaysia this side of the globe and to some African countries.

Yesterday we have announced setting up one particular plant. It is basically forward integration and as well as backward integration for our operations forward in the sense we have already two, three laminating plants one at Chennai and one at Kolkata. Presently we are importing particleboard and we are pre-laminating these and selling in the market. So now we are augmenting our capacity of core veneer in our Chennai unit. So we have identified a lot of local plantation timber and we have started using those timber and we are augmenting the peeling of those timbers for core requirement. In the process, we are generating lot of wood wastage. This is one thing and then we are already continuing with the face veneer peeling from the imported timbers so there also we are generating ample timber waste. So what we are planning now that the Kolkata pre-laminating plant will shift to Chennai and Chennai we are putting up one MDF plant for 180 cubic meter capacity per day so that will take care of our both the pre-laminating units.

So it will be basically backward integration for our existing pre-laminating units and it would give forward integration for the lot of waste, wood waste we are generating in our plant those wood be utilised for this particle board plant and again there is no other particle board plant in Chennai. In Chennai and around Chennai there are lot of sawmills they are also generating lot of wood wastage. So we shall tap those wastage plus almost 50% we shall get in house and for our timber requirement our wastage requirement or fuel requirement will shift to coal, which is now quite available at a very reasonable price because of the crush in the international coal prices so with that we are planning and we are hopeful that that particle board plant would aid to our topline and more than that it will aid to our bottomline.

There may be many questions in your mind relating to our working future and past. So Mr. Julasaria is with me I would request him to take you through the financial results and after that we shall interact with each other's. Thank you.

Arun Julasaria: Good afternoon friends. I am speaking to third time. I think most of you know about our company and its businesses, so I will not go into the details about the businesses of the company and its reportable segments.

I would just like to mention that this concall is just to share and discuss the historical financial figures and future plans and we should not be taken as any recommendation with invitation to invest in the company. I will quickly take you through key financial highlights post, which we will have, question-and-answers.

First I will tell you about YoY comparative figures. Net revenue have increased from 305 Crores to 386 Crores growth is 26%, EBITDA percentage have shown an increase from 12.2% to 19.1% overall figure from 37.15 Crores to 73.88 Crores. Quarterly PBT increased from 20.6 Crores to 47.8 Crores showing a growth of 132%. PAT increased from 19.7 Crores to 41.36 Crores showing a growth of 110%.

Now I will give nine-month versus nine-month figures on nine-month basis revenue growth is 23% 931 Crores to 1156 Crores, EBITDA increased from 10.3% to 16.2%, PBT increased from 38.1 Crores to 120.5 Crores, PAT increased from 37.5 Crores to 102.8 Crores growth of 174%.

Quarter-on-quarter performance in net revenue there is a dip of 5.2% it has been decreased from 407 Crores to 386 Crores, which is mainly due to festive seasons in October, November, December. This quarter have some festive weeks historically this is the lower quarter so far turnover is concerned and EBITDA increased from 16% to 19.1%, PBT increased from 42 Crores to 48 Crores showing a growth of 14% and PAT to increased from 36 Crores to 41 Crores showing a growth of almost 16%.

On forex part, I would like to say that we have almost 200 Crores exposure, I mean to say forex exposure equivalent to Rs.200 Crores as on December 31, 2014 compared to Rs.283 Crores on March 31, 2014. Forex loss for the quarter was Rs.2.41 Corers in fact we had a loss of 4.38 Crores, which is shown in borrowing cost and we had a gain of 1.97 Crores which is shown it’s for gain in our main operating figures.

Now nine-month basis we had overall forex loss of 3.5 Crores near about 9.71 Crores is forex loss, which is contained in any of these borrowing cost figures and 6.13 Crores gain is contained in operational figures. We have restated all our liabilities on the basis of Rs.63.33 paisa per US dollar which already is 62.14 near about today so by year end we have not likely to have any forex loss.

Now I will like you to ask your questions please.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer sessions. We have the first question from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Sir just wanted to check what is the tax rate for FY15 that you would incorporate?

Sajjan Bhajanka: We are paying MAT in fact our tax outgo is 20% but intimately we end up in paying 15% which would near about 5% we get MAT credit because few of our unties are tax exempted.

Jigar Valia: The FY16 also you have the same figure 15% to 18%.

Sajjan Bhajanka: Yes we would like to have same figures.

Jigar Valia: What is the rationale behind the MDF board set up right now, because I think earlier we were discussing that MDF is not a very attractive thing for this country?

Sajjan Bhajanka: This is not MDF board. This is particle board so MDF is very costly proposition the cost of plantain machinery is very high, but it is very less in case of particle board so however this plant the total capital outlays including the working capital is around 60 Crores so out of this around 50 Crores would be used for the plant and machinery and like in collaboration with our existing this pre-laminating line will give us total sale revenue of around 125 Crores so that way and there is very high EBITDA on this particular land because we sell only wastage of in house wastage of our existing unit in Chennai and then we shall buy wastage of other sawmills around Chennai.

Jigar Valia: So where is this primary use the particleboards?

Sajjan Bhajanka: Particleboards basically is either used directly in modular furniture's or factory made furniture's so the furniture factories like mechanised factories those are the major buyer of the particleboard and similarly the pre-laminated board also used in the same segment.

Jigar Valia: So our waste of Chennai plant will basically be acting as a raw material to this?

Sajjan Bhajanka: Yes, that will be there and around 50% we shall get in house waste and 50% we shall get from very sawmills. So our total cost on the raw material would be hardly within Rs.3 a kg so that is for any timber this thing Rs.3 is one of the lowest cost.

Jigar Valia: We continue to guide 20%, 25% growth for next year also?

Sajjan Bhajanka: Yes, we have been maintaining. Historically that is our policy. So by organic growth, inorganic growth, by acquisition, by augmenting the existing capacity, we always try to aim to increase our turnover at 25% so far we are successfully doing it and we are hopeful that we shall continue the same in future.

Jigar Valia: For the laminates the merchants any guidance that you would like to give?

Sajjan Bhajanka: For laminates now we are utilising 100% capacity even after our this thing like we have doubled the capacity from the two lands to four lands and we are now running all the plants at the 100% capacity so only thing is that so far we were not spending money in promoting laminate separately it was part of the main campaign like Plywood and Century brand we are promoting then we might have seen separate TVC for laminate. So this because the volume is more we have started marketing it separately, so there is some stress on margin for this quarter we do that extra spending but that is increasing our brand value and in future that will get us better revenue.

Jigar Valia: So overall we can still maintain maybe in the next year onwards 10% plus for laminates?

Sajjan Bhajanka: Yes, we shall maintain.

Jigar Valia: 12%, 13% for the plywood and 10% for the laminate?

Sajjan Bhajanka: I am hopeful that laminate also we will increase because the raw material prices are going down, the Phenol, Melamine. Phenol it has reduced to almost half so that is the major raw material for laminates so I think like plywood our cost will decrease in laminate, so it will enhance the margins.

Jigar Valia: Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please go ahead.

Avinash Agarwal: Sir first of all congratulations on a good set of numbers. Sir did you mention the size of this plant is 180 cubic meters per day?

Sajjan Bhajanka: Yes Avinash this is 180 cubic meters per day but it is just inline of our requirement so our capacity of both the pre-laminating unit is around 180 cubic meters.

Avinash Agarwal: So we will sell everything as prelaminated?

Sajjan Bhajanka: Yes I would say that is our plan.

Avinash Agarwal: Sir could you just take us through what is the size of this market and who are the competitors in this particleboard business?

Sajjan Bhajanka: Particle board mostly it is imported in India and Russell board is one unit which is in Karnataka so they are the major manufacturer and then there are many small manufacturers in particle board and then there one is amongst the big manufacturer one is this CD industries so they are in North India and in South India I do not see there are many manufactures now few people there we have started marking particle board in Kandla region and that is also out of the wastage generated in the sawmills in and around Kandla so that is mainly raw material based and in Chennai and around Chennai there is not the single particle board plant, so all the wood wastages are used as burnings well for the households and for other purpose so that we shall tap.

Avinash Agarwal: Sir this is usually sold to corporates or is it sold in the retail market Sir, pre-laminated boards?

Sajjan Bhajanka: The retail market is not much for this product. It is going through furniture manufactures like the organised furniture manufacturer who manufacture modular furniture, kitchens and all the other things in the factory so it is basically used there. We are already there in this business we are importing particleboard. We are selling it but our one unit is in Chennai and one unit is there in Kolkata so Kolkata furniture market is not there because most of the furniture makers they are in South. So we are planning to shift Kolkata unit also to Chennai and then the Chennai Particle Board plant would meet the raw material requirement of both the laminating units.

Avinash Agarwal: So what is the capacity utilisation today of both the units put together?

Sajjan Bhajanka: Today it is less, it is around 60%.

Avinash Agarwal: Sir what will be the value addition you mentioned that post putting up this plant we can now have 125 Crores so what would be the sales today from these two units?

Sajjan Bhajanka: After this thing our own particle board and running the plant at full capacity 90% plus capacity then our revenue for this sector would be around 125 Crores.

Avinash Agarwal: How much would it be today Sir?

Arun Julasaria: For nine months we have near about 33 Crores revenue and last year we had 36 Corers for whole unit which is revenue.

Sajjan Bhajanka: Here the main cost in this particle board at of appropriate quality and this thing and the Kolkata plant we are not able to run to the full capacity due to the cost constraints because and from Kolkata plant if we have to transport the material to client then the logistic cost is very high so we do not earn any money so Kolkata plant we are not running through the capacity and that is the main reason so with our own particle board...

Avinash Agarwal: By when do we expect this plant to come up Sir?

Sajjan Bhajanka: Within March next year.

Avinash Agarwal: We have the land and everything in place Sir?

Sajjan Bhajanka: In fact we are utilising one existing shed in Chennai unit we had one granite unit earlier which we closed maybe 10, 15 years back so that shed we were using as a storing godown. So now that shed we shall spare for our particleboard plant. We shall need some open area to store the timber wastage and raw material for particle board plant so we are buying around 10 acres of land in the Chennai unit and the land near that shed existing shed to be used for timber storage and timber ponds so that will fill up and that those existing ponds will strict to the new land.

Avinash Agarwal: Sir that Kolkata plant what would be the capex for shifting it to Chennai?

Sajjan Bhajanka: Capital cost not much. It is a single compact unit is only one phrase and already we have there impregnation plant in Chennai so that impregnation plant will take care of both the pre-laminating lands and Kolkata it was like exited with the existing pre-HPL plant. So in Kolkata we are getting the impregnated the dean paper and graft paper from the existing laminate plant and we had a separate impregnator and this thing dryer for the Chennai prelaminated plant only so that will take care of both the lands we do not need extra capacity for impregnation and trying in Chennai and Kolkata capacity would be used for the laminating plant.

Avinash Agarwal: Sir on this quarter's performance our plywood margins have increased quite a bit so just wanted to understand sir is there any one half in this or this is a sort of sustainable margin?

Sajjan Bhajanka: But that basically it is sustainable because you have lately we are concentrating on cost cutting and on better utilisation and trying the various mix of raw material but to some extent because the adhesives prices had come down drastically, the phenol price has come down from almost $1,800 to $900 only so that the reduction in the cost of glue and like the timber which we are using was purchased last year only, many of there for face veneer timber so that is still with us and that is going to last up to March so that is also one factor and in the meanwhile we have started Myanmar unit and then our Laos unit will also commission within March so March onwards we shall get ample face veneer from Myanmar and Laos and again we have experimented with many other is purchased so we have already established channel with Papua New Guinea and Solomon Island and we have started importing peelable timber from Europe in a big way so now those are established and in future gradually these timbers which we are experimenting now will replace the Gurjan timber which was coming from Myanmar. So I think we shall be able to maintain our cost and whatever we have achieved bring the better margins that should continue.

Avinash Agarwal: Sir this benefit from crude-related derivatives has that benefit come entirely in this quarter or do you see further benefits coming in Q4?

Sajjan Bhajanka: General expectation is this that the crude budgets price level will continue in near future so until the price of crude remains at this level the price of phenol would also remain at this level, because it is directly linked with the petroleum. So that is one thing and maybe if it continues then there maybe some demand from market to reduce the prices so that call will take at appropriate time, if we can sell our product at our price which is well and good if there is too much again then maybe have to share that part of this with our consumers.

Avinash Agarwal: So far we have not reduced the price?

Sajjan Bhajanka: Last month we have increased rather by 2%, 3% because of the timber price increase because we are using old stock, but in present market because now the Gurjan timber, which is of Myanmar, it is coming from Laos coming from Malaysia and the price increased. So earlier when it was coming from Myanmar it was coming at the level of 400, 450 and now the landed cost is 600 plus.

Avinash Agarwal: Sir last question just to understand sir what is this forex loss related to in the interest line and the Forex gain, which we have shown above EBITDA?

Sajjan Bhajanka: You see this as on the date like Euro is depreciated in absolute terms because Euro is converted into dollar and then to rupee to it is depreciated in comparison to dollar from almost $1.35 to 1 Euro to $1.16 so and the rupee is almost we have started the year at Rs.60.1 to a dollar and today's price is around 61.6 so it is hardly Rs.1.5 so that is almost 2.5% so it is only 2.5% whereas Yen and Euro whatever like in relation to rupee is much more. So as on the date on March 31, dollar price was Rs.63 plus so our loss was there around Rs.3 Crores but today if we redraw our balance sheet then there is profit because we say today the rupees playing at 1.6 and Dollar this Euro is much lower almost 10% lower than earlier.

Avinash Agarwal: Sir we have a loans in Euro?

Sajjan Bhajanka: Yes, because like Europe and all imports for laminate plant and from Europe timber and other things coming in Europe and our dollar denominated imports is reduced due to reduction in this thing and that is now from our own units we have to remit in advance so whatever price we are paying for that it is booked on day-to-day basis so there is no outstanding of forex on that account, but today we can 60% is dollar and 40% is total existing outstanding.

Avinash Agarwal: Thanks a lot of your answers and all the best.

Moderator: Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: Sir just trying to understand the dynamics of the particle board plant what would be the kind of profit enhancement on per unit basis let us say if you sourcing the particle board from outside at X rupees so how much would be the benefit in terms of manufacturing it in house?

Sajjan Bhajanka: Aman, basically this is a unique proposition because we have taken care of various factors so first thing our raw material base is the wood wastage generated in our own factory and available from this sawmill around and our the cost on the raw material from particularly timber would be less than Rs.3 a kg which is best possible this is equivalent to fire timber, fire wood and equivalent to the fuel wood so that is the lowest possible cost anywhere this is one thing. Second thing we are using the same infrastructure of our Chennai factory so because the peeling activities for the imported Gurjan timber is reducing due to less import from Myanmar so that thing we are replacing with our own peeling from the timber imported from Europe plus timber like core veneer timber is procured from Tamil Nadu itself and Andhra and basically this is the plantation timber, so plantation timber generate more waste. So that is our take and our total spending meaning the part infrastructure would be existing infrastructure land otherwise also we are planning to buy so that is not we are buying that 10 acres for this project only so that land is available and lot of litigation works going on for the last 10 years so it is settled now so the prevailing price of land is much more than that so we are getting it almost 60 lakhs acre so that is the reasonable price and which was agreed 10 years back so that now is coming to our favor that litigation so that way we are buying so total this things we and the because it is a bulky product so logistic cost is very high if we are manufacturing prelaminated board in Kolkata and shifting that material to Chennai or South India the cost is very high. So that is the logic and our total capital expenditure on this would be 10 Crores each for the margin money and 50 Crores is for entire cost of the plant and machinery. So that way EBITDA margin would be very high in this rather that will decrease our overall EBITDA margin like overall cost by 0.5% or increase the margin by 0.5%, 10% of the turnover or less than 10% 7%, 8% of the total turnover so if here we save around the another additional 10% so the overall margin will increased by 0.5%.

Aman Batra: So 10% is the cost saving that we are dealing in this?

Sajjan Bhajanka: Yes, but this is we are expecting around 20% EBITDA margin in this segment only because of the low cost of the raw material, low cost of the infrastructure and even for the capital expenditure also we have talked with the bankers to get ECB of around 10 million at the 2% and 2.5%.

Aman Batra: The second thing on the margins in the plywood segment, you said that timber that you got on the stocks and they are to last till March at $450 average and that new timber is coming at $600 so would that mean as we move from March move to the freshly bought timber which will come at $600 per tonne and if the prices remain at the current level then our margins will dip from here?

Sajjan Bhajanka: Actually this Gurjan timber that Gurjan or Keruing or which the only timber we are using for the self manufacturing the price of that is increasing and now due to the nonavailability the prevailing price is 600 plus. So we are gradually doing away with that and now we are replacing that timber with timber imported from Papua New Guinea and Solomon Island so where the average cost is around $300, $310 and then we are replacing partly the timber with this timber which we are importing from Europe. So the landed cost at the various factories varies from $180 to $200 because if the Western India when the material is directly coming container from Europe so our landed cost is around $180 and in Kolkata is around $200 so that way it is the cheaper timber and we have already introduced these timber in our plywood product and it is accepted by the market. So that way rather it will help us in reducing our timber cost even in comparison to earlier level of

450 or so it will bring it down and only we are using that $600 timber in a very limited case ridged where our veneer buyer they want only Gurjan veneer at higher rate so there only we are using that timber in our own factory and our own face requirement then we gradually shift into other spaces.

Aman Batra: You mean to say for the face veneer requirement in plywood we are moving to other sources of timber while for the face veneer requirement we would continue to use this timber, which comes at higher cost?

Sajjan Bhajanka: We have two things. We need face veneer for our own requirement then we need face veneer to meet the demand of ours and the other plywood veneer small plywood manufactures in different parts of the country because we are the major face veneer suppliers to different countries. So they have different policies some of them they have one costly product, they manufactured costly product, they have targeted market, which are particular quite quality standard so they want to buy Gurjan veneer. There are some people who are not fuzzy about the colour of the veneer so they want the cheaper veneer so now we have earlier it was only one item, one species and it will prevalent in the whole country, all the veneer manufacturers, all the veneer wire they were using Gurjan or Keruing. It is the same thing Gurjan and Keruing. But now we have ten items and which we can supply at various rates so now face veneer we can supply a Rs.20 square meter, we can supply a Rs.10 a square meter because their requirement and similarly in our own factory like we are doing the best possible raw mix so that our cost decreases and at the same time we have better flexibility.

Aman Batra: This Laos capacity would be how much?

Sajjan Bhajanka: It will be more or less similar to Myanmar core lands so it will be may be 150 cubic meters of the raw material which will give us around 100 cubic meters of finished products. Material requirement would be 150 cubic meters and product would be 100 cubic meters in both the factories.

Aman Batra: Just lastly on what is the kind of volume growth that we have done on this quarter in laminates and plywood?

Arun Julasaria: You want year-on-year comparison?

Aman Batra: Yes year-on-year comparison.

Arun Julasaria: Volume growth in plywood is it was near about 10% and it was near about 19% in laminate also.

Aman Batra: Thanks a lot for this.

Moderator: Thank you. The next question is from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

Nehal Shah: Congratulations Sir for very, very good set of numbers. Sir a couple of things just on the demand side are we seeing a structural change in demand because demand over the last seven, eight quarters has been impacted because of real estate slowdown or economic slowdown is it that we have seeing on the ground level that the demand is definitely improving?

Sajjan Bhajanka: I would say that overall, I am not sure that it is increasing but we are able to produce more and we are able to sell more so as for the Century's concern that demand is increasing and the even we have increased the price so this 23% growth in terms of best of both the things volume and value.

Nehal Shah: So you are seeing on the ground you are not seeing that kind of environment even now?

Sajjan Bhajanka: As far it is not that evident. So far the Modi effect it is yet to take place.

Nehal Shah: So if at all the macroeconomic recovery shapes up then the demand the growth numbers what we can see could be even more than what we are seeing at this point?

Sajjan Bhajanka: The news that we are getting from newspapers and other discussions that they will have some policy announcement to boost the housing growth and may be some intersubsidy or something for the housing and even they are very hopeful that immediately after the budget there would be demand spurt in our sector.

Nehal Shah: So basically at the moment what we are doing as we are basically taking away share from the organised as well as an unorganised players?

Sajjan Bhajanka: Mostly from unorganised.

Nehal Shah: Because your nearest competitor has been growing at just about 8% to 10% while you have been growing at around say 20-25%?

Sajjan Bhajanka: So the additional sell will be coming from unorganised sector because our organised competitors they are more or less maintaining their earlier levels.

Nehal Shah: Right. Sir what about the price hikes in the market, have you been able to pass on the cost increases or not yet?

Sajjan Bhajanka: Actually now the scenario is a little opposite because now the raw material prices have started coming down so two months back we announced price increase that we implemented also but if you now this changed scenario now we are not planning any more price increase and we will be happy if we are not to decrease the price.

Nehal Shah: So basically you are saying apart from the adhesives, which include phenol or urea formaldehyde or whatever even the timber prices are coming down? So for example Eucalyptus as well as Popular?

Sajjan Bhajanka: They replace the existing species with the new species, so there now the major we have identified is the species from Europe and species from Pa Papua New Guinea and Sullivan Islands. This was already around 15000 cubic meter is in transit from Sullivan Island and Papua New Guinea and our average cost is around US $300 - US$310.

Nehal Shah: But that is it for the face veneer or for the Deco veneer?

Sajjan Bhajanka: But they we will get both because we can import any veneer any timber which is only meant for core, so core we are importing as it is we are importing core from Vietnam, from China and the timber we are importing it can produce both the things phased and core, so now earlier the Gurjan Timber was giving a high percentage of phased veneers these timbers will give a lower percentage of face veneer and the quality, the color, the grades of that was well accepted in the market and our import consists of almost 10 species, so some of these species are white in colour, some are red in colour so but we have priced those things according to our cost, so white these are being sold at a lesser price and then the color similar to Gurjan is being sold at more or less same price, so that way. Like we are passing on some benefit to the customer and then R&D definitely is going to help us and in future because ones the Gurjan is not available so there would be it will be imported as the finished product only and there could be a market for that which would be a premium market so the Gurjan from Myanmar and Laos we sell huge for our premium product and at the same time we would sell as like premium veneer, face veneer to the willing customers and the rest of the market now gradually they will shift to different species.

Nehal Shah: So you are saying apart from face veneer because of the change in species obviously we are benefiting from that in terms of lower cost and even in core veneers for core veneers we are also importing than domestically using Eucalyptus?

Sajjan Bhajanka: Earlier also we were using Eucalyptus and now they have augmented use of their domestic Eucalyptus and earlier it was not available in plenty in south India. Ten years back Tamil Nadu Forest Department they initiated implanting lot of Eucalyptus. Now that is matured and they are regularly obtaining it and selling it so we are getting now from the Government of Tamil Nadu, the Forest Department and even some private plantations they have also started giving local Eucalyptus and that was the species of eucalyptus which was suitable for peeling.

Nehal Shah: Okay but as the Eucalyptus prices gone up also?

Sajjan Bhajanka: Not much rather it has come down. In between it jumped to Rs.6 kg plus due to huge demand from the paper mills but now it is subdued. It has come down to below Rs.5.

Nehal Shah: So is it economical to use domestic Eucalyptus or economical to buy the imported species for core veneers?

Sajjan Bhajanka: The prevailing price of the Eucalyptus in Vietnam, which is the major source of the core veneer to India, is around $80 so that is again Rs.4.8 but when it is processed in Vietnam they had processed their cost is less, leveraging almost at par with India and again their productivity is better.

Nehal Shah: So processing in the sense you are saying peeling?

Sajjan Bhajanka: Peeling, now what they are doing there are so many small peelings in Vietnam so they are doing cutting the popular Eucalyptus timber, peel there itself sundry it or some of the units have mechanical dryers so they dry it and they export to India and that is like the logistic cost is very low. In containerized cargo because the areas like Kandla and other things these are container deficit area because India export is more and India import is less. So sometimes they have to bring empty containers so that way being this thing we are getting containers for the $450 Vietnam to India so this is a very low cost.

Nehal Shah: So basically the mandate cost of imported Eucalyptus is even lower than the domestic Eucalyptus?

Sajjan Bhajanka: Yes.

Nehal Shah: So that is also a cost saving for us.

Sajjan Bhajanka: Yes that way we are procuring Eucalyptus core from there but at the same time like domestically we are getting the core and say around 30-40% timber wastage we are getting so presently we are using that wastage to run our boilers to get the heat and for our existing operations so being coal becoming cheaper day-by-day so that we can replace from the coal calorific value is almost double than the timber. So if we are getting coal at Rs.4 a kg then it will replace 2 kg of timber, the replacement cost would be Rs.2 timber at Rs.2 so that way we assume Rs.2.50 paise then also it would be cheaper raw materials for our particular work.

Nehal Shah: Thanks Sir. Thanks a lot and wish you all the best.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharati AXA Life Insurance. Please go ahead.

Ajit Motwani: Sir just non-debtors revenues in both segments are growing at 20% plus and there is a shortage of premium products in the market, how are the terms of trade changing as per the working capital are concerned?

Sajjan Bhajanka: So far we have not initiated in that direction. We are maintaining status quo. Earlier also giving credit for 60 days and payment was before that when they were getting cash discount so far we are continuing with that policy only.

Ajit Motwani: But as you know, as it becoming increasingly difficult for the unorganized market to procure raw materials and also the things, would not it sort of give a significant advantage to organise that now to change the terms of trade because even today your networking apple to sales is more than a third of your revenue?

Sajjan Bhajanka: Actually we will wait for some more time. We are anticipating that very near future there would be huge demand for our product and at that time we would be in a dictating position and in that scenario we will reduce the credit period or eliminate it may be try to sell against the payment play, at the moment we are not doing anything in that direction.

Ajit Motwani: Also just wanted some clarity on the Myanmar plant. Now earlier our Myanmar strategy was that it would sort of largely be for in-house requirement and whatever is the balance we will sell it in the market so in which case the product mix or our product proposition of selling that premium grade plywood you know would have enhanced in the market. Now you seem to suggest that you know the raw material mix you are gradually shifting to other woods so is it that we are sacrificing the mix to exploit the higher margin in the face veneer segment or let me put it this way is it better to sell face veneer in a raw form today than sell a plywood?

Sajjan Bhajanka: I will explain it, I got your question. You know earlier there were around 65 units manufacturing face veneer in India. So now in Myanmar only five six units have been able to commission their production and may be another four five will be commissioned in the near future but the total capacity will reduce in comparison to earlier capacity in India to may be 25-30% only. So otherwise also the Gurjan phase would not be available in plenty, so we whatever we need we will still give priority and we were using premium grade like A grade, B grade, C grade so we were using only A grade face veneer in our factory and the market was more for

B&C grade so in that way there was no conflict, so otherwise also the premium grade we are using in our factory and in future also we will do so, and the lower grades given to market that will continue and already demand is less due to other cheaper products available similarly supply is also less. So it is matching demand and supply matching with each other. So that way the demand is less obviously because now other white color veneers, other red veneer at cheaper price, the veneer of the xxxx. Timber which is begin imported it from Europe at one-third of the price so that is obviously cheaper than the Gurjan veneer so people are gradually replacing that and for some of their premium products they use Gurjan veneer so we are in position to supply that Veneer.

Ajit Motwani: One last thing, any capex update in terms of Rupees Crores how much we are going to spend this year and next year?

Sajjan Bhajanka: In yesterday's board meeting we have taken one policy decision that one-third of our net revenue or net profit, which is shared with our shareholders so that will be obviously inclusive of dividend tax so say next year only our profit is around 102 Crores so if we maintain the same then it would be around 140 plus so one-third of that that means after paying the dividend and dividend tax still we have 80-90 Crores so part of that we shall use for this particular of plant that we have 15 Crore our own margins and still we have some surplus money. So we are trying to invest that in the best possible manner where we will are and the capacity with a very little investment in our existing plants and as I have explained earlier that we are trying to find opportunities in other timber best country like Indonesia, Malaysia, Papua New Guinea, and is some African countries which are Gurjan for that timber.

Ajit Motwani: Thanks lot Sir and best of luck.

Moderator: Thank you. The next question is from the line of Mr. Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: Thank you Sir. Sir very quickly a few question from my side. Sir firstly crude linked inputs that is close to about 12% of your overall raw materials if I am not mistaken, is that correct?

Sajjan Bhajanka: Yes and that is reduced by 50%.

Achint Bhagat: But Sir wouldn't you have incurred some sort of an inventory readjustment loss, because you would have to revalue your inventory as on December and I assume you would be holding on to some excess inventory?

Sajjan Bhajanka: Earlier we had inventory at the level of say $1800 per tonne level and gradually it has come down. It has not come down overnight so now our last inventory is that $1300-$1400 level inventory fully adjusted by December and presently we are guessing that around say $1150 level inventory in comparison to $1800 level phenol buying and this by the end of January this allowance will be adjusted and after that now presently we are procuring at $850 per tonne this phenol. So from February onwards we shall be using that and we are trying to hire some bigger capacity of tankers and things in around Kolkata so we think that this is the lowest level so we will still try to build some inventory big inventory so that at 850 levels we can sustain for lower period.

Achint Bhagat: Sir one question on Myanmar so given that you have backward integration there and many of the unorganized player zone so would not it be that the cost increase that you mentioned close to $600 would should be a little lesser for you and also I was under the impression that the logistic peeling because that will come in the veneer formate should also bring down the overall cost?

Sajjan Bhajanka: So Myanmar our cost must be lower now because of the export is banned so we are getting plenty of Timber in Myanmar at around $350 and same would be our cost of the timber in Laos. So Laos and Myanmar, our timber cost would be for the Gurjan Timber would be $350 and labour cost is more or less same similar to India. In Myanmar it is cheaper than India and in Laos it will be more or less equal to India so that way our manufacturing cost in Laos and Myanmar would be almost at par with India and our Timber cost is substantially low in comparison to India. That is $350 only for Gurjan Timber and again once timber is converted to veneer the logistic cost reduces to 40%. So once it is converted to veneer we import to India then our logistic cost for importing veneer in comparison to timber would be only 40% so that way that those units will give us the raw material at such lower price.

Achint Bhagat: You were saying that its $400 is the inventory that you are sitting on right now correct, till March for Gurjan?

Sajjan Bhajanka: In between we have imported at higher price also may be 500 level or something so but that is just to meet additional demand. So that is hand to mouth, like we do not have the inventory of that still we are digging out timber from our xxxx March last year. So that timber is still we being used for us from these buyers and that is likely to continue up to March.

Achint Bhagat: Sir actually I guess that my question is that this $400 after March would increase to how much because you are saying that the timber prices for you the face veneer price we were not in these materially given that you have backward integration so will this 400 remain a status quo or would that increase significantly?

Sajjan Bhajanka: The present price of Keruing imported to India around $600 because phased quality Keruing now onwards would be available at Rs.600 only not below that. But earlier we will give 100% that timber, now we are reducing the timber to very low percentage and we are replacing the timber from some other species, which are much cheaper than Rs.600 Keruing.

Achint Bhagat: Sir in the laminates you have almost reached the peak capacity utilisation so what is your plan on expansion and by when can we see your new capacity come up?

Sajjan Bhajanka: So first thing we are planning to run the factory 7 days around the clock around the year, so that way though the maintenance on-going like section wise one shift a week something like that so that will give us another 10-15% capacity and then we have to expand our capacity so we are working on that and whether it should be the same venue or we should go to Western India because like plywood we are present all over India in Chennai, Kandla, Karnal, Roorkee, Guwahati, Kolkata but laminates we have only one location that is Kolkata so we have advantage for Western India or the Central India and South India costing more or less same from Ahmedabad or Rajasthan grades and our cost in South India is the same. Central India our cost is cheaper and Eastern India we have the advantage position but the Northern India we are in a disadvantage position. So if we put up a plant in Western India because it has to be near to the port so nearest port for the Northern and Western is Kandla so that could be one of the venues.

Achint Bhagat: Okay so you have land there?

Sajjan Bhajanka: So we are just exploring whether that climate would be suitable because most of the plant laminate plants in India are in an around Ahmedabad. So may be we have not taken a call so far, we would like that it stabilises, which should augment the capacity as much as possible in the existing setup and then we will go for an expansion.

Achint Bhagat: Okay so this 4.8 can add to how much next year Sir the overall capacity 4.8 million sheets to add best next year?

Sajjan Bhajanka: Only this 4.8 is our ultimate capacity now in previous commissions and like we have different like higher thickness laminates then we have another product Exteria so in number of seat it is not 4.8 million it would be less because Exteria is sometimes 8 mm, sometimes 12mm, so that way but if we take the value wise this will increase and our particularly if we convert everything to 1mm then it will be 4.8 plus.

Achint Bhagat: Thank you.

Moderator: Thank you. We have the next question from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.

Subramaniam Yadav: Sir can you give me the breakup of the laminate in terms of domestic sales and international the 72 Crore sale?

Sajjan Bhajanka: I will give you all figures. On December 2014 total turnover was 213 Crores export was 47 Crores, 25% exports.

Subramaniam Yadav: Can you give us the guidance of the volume growth for next year in terms of plywood and laminates?

Sajjan Bhajanka: Volume growth 15% plus both in plywood and laminate. See in our strategy what we have seen and followed in past there is around 15% volume growth and 10% value growth.

Subramaniam Yadav: Sir in last quarter we did sale of Aegis business and overseas two companies so did we book any loss or capital in that?

Arun Julasaria: No we have not booked any loss. We rather booked some profit. In fact we invested 51 lakhs in that company and that company gave us dividend somewhere about 5 Crores, so that dividend was reinvested and even after reinvestment we made some money, in fact the shares were sold above par.

Sajjan Bhajanka: Where we have subscribed at par Rs.10 and then we have sold it at Rs.11 something.

Subramaniam Yadav: Sir going forward what is the sustainable EBITDA margin because last quarter you were guiding for 15% to 16% and now it seems that for this quarter also we can clock about 18% to 19% so may be going into next year what should be the margin we should take Sir operating level?

Arun Julasaria: Sustainable EBITDA margins as we think are 16% but since we are having distinct advantages now because the crude price reduction and our distinctive advantage the margins quarter has gone up from 16% to 19% near about in current quarter and unless the market pressurises us to reduce the price we can maintain the 19% otherwise 15% are always possible.

Subramaniam Yadav: Thank you Sir.

Moderator: Thank you. The next question is from the line of Kuldeep Khanapurkar from Kotak Asset Management. Please go ahead.

Kuldeep Khanapurkar: Sir just one question. I did not quite understand what you said on shift of a raw material procurement so you were doing it from Myanmar where you have a backward integration where you have a distinct benefit than competition now when you replace it with the other species which are probably coming from Europe and some other parts those are mainly import based where somebody else third party supplying it to you so what is the advantage even if competition import sourcing strategy then one that you are doing from Myanmar and you know would supply from Myanmar reduce over a period as you replace it with the other species, if you can just help that understand?

Sajjan Bhajanka: No wood supply is totally done from Myanmar so there will not be any wood supply and only veneer it will come in veneer form so at the moment it is hardly at 10%-15% of the earlier level when converted to wood, it is hardly 15%. Earlier we were importing more than 3 lakhs tonne of wood and now in veneer form it is hardly 15% equivalent so that way that pressure is there in the Indian market and now we can divide it into two parts. One is the fancy for the earlier Keruing veneer, Gurjan veneer but it has become a rare commodity and this thing and only premium people can like they can afford it so it is reducing and it is being replaced by some veneer import from China like some colored veneer, or dyed veneer is being imported but again that is cheaper veneer and used by the cheaper segment and then there are some very good veneers quality only color is little different. The strength is very good like Birch, like xxxx other things which are coming from Papua New Guinea and Sullivan Islands.

So market will take some time to accept those timbers and utilise those timbers but we have started importing it we have now 10 species of veneer. We offer to a market at various prices keeping our margin so people they are also experimenting and we have an advantage in comparison to others because these timbers give lot of core veneers like Keruing say 60% face veneer and 40% was core and for these timbers may be 70% is the core and 30 or 75% is the core and 25% is the phase but the price is very low in comparison to $600it is only $300. In like these timber from Europe it is only $180 so even if we take 100% core then we have it, and if we get 30% phase or 25% phase that is the net benefit to us if we take that face and sell in the market so even if the price we faced for this phase that is lower than the Keruing phase then also it much more than the core and because we have huge requirement of core because we were importing core because we were buying core from the domestic market so now that we can reduce, so we can use imported timber to our benefit and we have units at Kandla Port, which is the cheapest point for import of birch, we have unit in Chennai which is moderately cheapest and we have another unit at Kolkata so which is little costlier for these timber because of the container cost here container comes from transit from Singapore and come back to Kolkata so is around $20 more in comparison to Kandla so but we have here the local market for Western India.

So that is this thing, so Century Plyboard has the advantage and most of our other competitor they have units either one unit which is port based or at the most two units, and their capacity is much less, the port based unit capacity whereas we have huge capacity in all the three units, Kandla, Calcutta and in Chennai and even Karnal also we use the imported timber.

Kuldeep Khanapurkar: Two questions, so what happens to our capacity in Myanmar, over a period would the supply from Myanmar reduce as we start replacing it with the other species or that will also continue?

Sajjan Bhajanka: No we have to compare into two different species, one was timber imported from Myanmar to say it was around 3 lakh tonne of the timber and now veneer is being imported so this veneer if we convert into the timber then it is hardly 10% of this 30,000 or 40,000 tonnes equivalent so that way the total availability in India of Myanmar Timber converted in Myanmar or in India is reduced to a maybe around 20%. So there is a huge gap. So that way like it has to be replaced from other species.

Kuldeep Khanapurkar: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the floor back to Mr. Achint Bhagat for closing comments. Please go ahead Sir.

Achint Bhagat: Thank you everyone for joining us. Thanks a lot Mr. Bhajanka and Mr. Julasaria for taking out time. Thanks.

Sajjan Bhajanka: Thanks everybody.

Moderator: Thank you gentlemen. Ladies and gentlemen on behalf of Ambit Capital Pvt. Ltd. that concludes this conference thank you for joining us. You may now disconnect your lines. Thank you.