"Century Plyboards (India) Limited Q3 FY 2016 Post Results Analyst Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Century Plyboards 3Q FY2016 Post Results Analyst 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 call please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Achint Bhagat from Ambit Capital. Thank you and over to you!

Achint Bhagat: Good afternoon everyone welcome to the 3Q FY2016 Earnings Conference Call of Century Plyboards. We have with us here today the management representative by the Chairman, Mr. Sajjan Bhajanka and the CFO, Mr. Arun Julasaria. I request the management for opening remarks and then we can open up the floor for questions please.

Sajjan Bhajanka: Good evening friends. I am Sajjan Bhajanka, Chairman of the company and Mr. Arun Julasaria, our CFO. He has also joined me in welcoming you to this conference.

Friends, all of you know that we are passing through a very challenging period where we have so many contrasting signals, but on one hand we were retaining our volumes and probability. We are trying to invest in future also so that when the opportune thing comes we are ready for a big display and big performance.

On the one hand, we are maintaining like ourselves keeping it intact and on the other hand, we are creating like investing in the new product like MDF particleboard and then we are investing in the other countries like Laos, Myanmar, and Indonesia and to Vietnam also.

This is a broader outlook and our particleboard plant would be ready this March three months ahead of the schedule. Our projection is likely to be commissioned in June but we shall be able to advance it by three months and similarly we have taken very ambitious target of starting our MDF plant somewhere in December this year or January next year so if we are successful that we are trying our best and our suppliers they have also committed so it will be the fastest implemented MDF plant anywhere in the region and plywood we are investing in brands. We might be seeing lot of ads for the Sainik so this is in order to prepare ourselves for the envisaged change like we are anticipating this one GST very soon maybe it is not from the April 1, but our expectation is that it will not be delayed beyond June.

The moment GST is introduced then we are ready with the capacity and we are ready with the brand in the new segment and by that time it would be Sainik could be household name so now we are investing heavily in Sainik in addition to our premium brands and again we are investing in our laminate division also like our TVC laminates that we also regularly had and our increasing sales for both the products. Sainik also there is growth in the sales and laminate also there is growth. With this thing now I handover to Mr. Julasaria and I shall attend all that the queries you raise and before that broader figures, Mr. Julasaria will give you and then both of us would be available to you.

Arun Julasaria: Good morning friends. It is pleasure to connect to you again. I think you all have gone through whatever is published and submitted to stock exchanges but still I would like to take you through the major highlights.

I will talk about the overall profitability. If you see third quarter versus third quarter you will find that revenue has increased from 385 Crores to 390 Crores so it is almost flat with near about 12.25% growth. EBTIDA margin sale also remained almost same if you compare it with the sales growth either. These are bit from 19% to 18% and quarterly PBT is almost same at Rs.48 Crores level, and quarterly PAT is also almost at the same level of 41 Crores and now I will take you to nine-month data.

Nine-months yearly comparison of our net revenue have increased from 1155 Crores to 1203 Crores showing a growth of 4%, EBITDA has increased from 184.9 Crores to 210 Crores and EBTIDA percentage on nine-months have also gone up from 15% to 17.5% nine-months. Year-on-year PBT has increased from 120.5 Crores to 152.8 Crores showing a growth of 19%.

PAT have also increased from 102.8 Crores to 127.5 Crores showing a growth of 24%, but if we compare on quarter-on-quarter the revenue has come down from 432 Crores to 390.6 Crores. EBTIDA has also reduced proportionately from 72.8 Crores to 69.6 Crores. All quarter-on-quarter basis, but the EBITDA percentage has gone up from 17% to 18% and similarly PBT and PAT have also come down proportionately, but here you will appreciate that this year quarter three was year full of festivities. Normally the festival season is spread in over two quarters, part of festive seasons fall in September month, part in October month but this year the whole festive season like Dasara and Diwali both were in this quarter so the sales was a bit subdued, but we could hold our bottomline.

Now I will be happy to answer your particular questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question-and-answer sessions. The first question is from the line of Chinthan Modi from Motilal Oswal Securities. Please proceed.

Chinthan Modi: Sir my first question is related to the sales degrowth that we saw during the quarter so first of all as you mentioned that we had a lot of festivities in the quarter, but anything specific apart from that because of that we saw degrowth and if you can share also how is the mix panned out during the quarter?

Sajjan Bhajanka: Due to the less working days in this quarter because you have got the Pooja and Dasara holidays were there in this quarter so we had less working days so that is the main reason and there is little migration because the premium apartments and these were less active and we concentrated more on the mid segment so we are promoting our second brand Sainik because you with the introduction of our GST that will be the bigger segment where our big growth will come. There was some migration from the premium segment to Sainik segment. There is some decline in the premium like brand Century brand and there is increase in the Sainik brand so that was the conscious decision. That is because we are promoting we are popularizing that brand. We are appointing more dealers for that and keeping in view the future prospects.

Chinthan Modi: But if you can just mention what was the mix between premium and the economy?

Arun Julasaria: On nine-month basis we have shown 103500 cubic meter as against 112600 cubic meter. In our prime segment there was growth of near about 8% whereas in my Sainik segment the growth of 12%. We have sold 34700 cubic meters against 30900 cubic meters last year. So if I take both in total I have sold was that 144600 cubic meters against 148000 so the degrowth is nearly 2%.

Chinthan Modi: At this level what would be our utilization levels?

Arun Julasaria: Utilization levels with reference to installed capacity?

Chinthan Modi: Yes.

Arun Julasaria: So you can say that out of 210000 cubic meter if I convert it into nine-month then it is near about 150000 so what I will sold in and let's see something.

Chinthan Modi: Secondly coming to the margin side Sir we saw a huge dip in the plywood segment so is it because of the mix change only or there were other reasons also to it and I think we saw gross margin expansion?

Arun Julasaria: If we have to talking a dip if you see on a complete nine-month EBITDA margin there is major difference.

Chinthan Modi: No Sir I am talking about the quarter particularly?

Arun Julasaria: Talking about the quarter then also there is no major difference in EBITDA margins but if you compare it with the corresponding quarter of last year then you will find almost 2% to 2.5% EBITDA margin difference that is because the Q3 of last year was the best quarter because Q3 last year timber export was done for Myanmar and there was a huge shortage within the market and what we earned last year in Q3 was due to decent growth rate. If you compare last year Q3 with this Q3 there will be some disconnect, I agree, but if you would compare nine-month to nine-month you would not find that disconnect. It is a business where there is some cyclicality in this.

Sajjan Bhajanka: In Q3 your migration from the premium to Sainik is a little more evidence because your premium has declined 36% to 32% where Sainik increased from 9000 to 12000.

Arun Julasaria: I mean to say Sir, you will agree that now in real estate market biggest suffer is big ticket houses, high priced houses, consumes where they are catering to the prime category which is plywood and that is under trouble. So in order to drive the growth we are more inclined to what is the growth of our economic segment. Of course we are trying to hold the growth to prime also with but we are more inclined to our Sainik and when we change our strategy our sales force also goes to the market then sometimes there may be cannibalized from one brand to another but that is the strategy.

Chinthan Modi: Just one last question Sir, how is the outlook for fourth quarter and how do you see FY2017 panning out?

Arun Julasaria: Fourth quarter would be more or less on similar in lines maybe there would be some improvement with the more promotional activities and other things but we are not foreseeing any big jump in fourth quarter so maybe we shall be ending the year may be 5% plus in comprehensive last year.

Chinthan Modi: On the margin side we expect to see some improvement?

Arun Julasaria: Margin side there should be improvement because the raw material cost is coming down and we have taken one conscious decision not to reduce our prices. We are holding on the prices because ultimately we expect the market would improve and if we reduce the price then again to increase it is very difficult, although we are holding on the prices so there is some hit on the turnover. If we would have reduce prices by 5%, 10% then the turnover would have increased by 10%, 15% but that we are not doing because ultimately bottomline would have been badly affected if we have reduced the price by 5% to 7% then there would have been the hit on the bottomline so there we are avoiding in anticipation that things will change and there are signs of the improvement and this budget also we are expecting some big boost for the housing sector. Now budget is only one month away so we are expecting because all the seminars, all the government ministers and others whomever we have discussed were all positive and we are expecting there would be some boost for the housing sector. If it does not improve then we may have to reduce the prices to some extent then we will get bigger volume, then may be the bottomline may take some hit, but if things improve and from here we take off then we are capable now we have increased our capacity it is there in all the units and the moment demand is there we shall be able to meet increase demand at least up to another 30% we are very comfortable.

Chinthan Modi: Just on the particleboard that capacity will come in March so what are your internal target for FY 2017?

Arun Julasaria: Particleboard you know we had two laminating plants one at Kolkata and one at Chennai. Our laminating plant has almost that capacity but last few months we were not finding it profitable to import particleboard and laminate and then to sell but when we have our own capacity so not so that would be consumed in our own prelaminating plants so I think and there is not much of high-tech sort of thing so within two, three months we shall attend the optimum capacity and then the whole this first quarter last quarter of this year may be little bit teething trouble maybe there from the first of April I think we shall achieve the regular production and at the 70%, 80% level.

Chinthan Modi: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sameer Tulsian from JM Financial. Please proceed.

Sameer Tulsian: Sir how is the face veneer business doing in the current scenario like how is the volume and pricing being with the current quarter?

Sajjan Bhajanka: I think lot of our other participants they must be interested in the face veneer scenario so I will take some time to explain the whole scenario. Like earlier there were many veneer units in India. They were importing timber from Myanmar, from Malaysia and some other expected from different countries but predominantly it was carrying timber from Myanmar and Malaysia and they were meeting the entire need of the country. So this year there was the last year particularly there was the scarcity of faced veneer because the timber export was banned from Myanmar and again the Laos it was not the economically viable, because the Laos need to export it from the third country that is it was to Vietnam and then coming via Singapore to India so the lowest cost was very high so it was never popular and now they have already banned in last October or so they have banned the export of timber from Laos also. So virtually timber is not available now in India and that particularly one, which is Keuring, which was the most prevalent and most popular species in India. Now India depends on the totally imported Veneer but had this Keuring was not available all the Indian manufacturers they tried with many other species, they imported beach timber from Europe, they imported Okume from Africa, they imported timber from the Papua New Guinea and Solomon Islands and we also did it. So we experimented but ultimately now it is proven that none of the timbers are viable, their product like veneer faced veneer coming out from those timber are not comparable to Keuring and it is not acceptable as far with the Keuring and most of the people including ourselves we lost some money in those experimentation. So now experimentations are over and now finally we have identified only one timber that is BQ for Solomon Island so that timber is the nearest to Keuring and it is like economically viable to reduce margin we can keep our filling running to a lesser extent and we can survive on that filling, but the other people may not be able to do it because we have 150000 plus daily manufacturing of the plywood in our six units. So we are using lot of timber ourselves but to sell that timber the veneer in the market to others is a little difficult so people who do not have plywood capacity may not be capable of bringing their timber and using it. So that sums up the scenario so basically now for the faced veneer people have to depend on imports and there we have taken good initiative. Our Myanmar unit is there. Most of the other Indian players they are consigned to Myanmar only. There we started units may be five, ten, seven, eight players from India and four, five players from Myanmar itself they have started veneer manufacturing in Myanmar but our company is the main company to concentrate on Laos. Laos already we have commissioned three factories, but all these factories were commissioned in the fag end of the last year. So we could not build up sufficient timber and like we adjusted our timber in those factories and in between there was less production, so now one factory we are running from last one month in full capacity because the new timber has arrived in that factory. Second factory also timber arrival has started and that we shall start immediately after the Chinese New Year so that will be mid February and the third unit again timber will come in the mid February and that we will start from the end February so within a month we shall have big inflow of faced veneer from Laos to India. Again maybe anticipating the question from you through this question, I will again make it clear like Myanmar unit is our 100% subsidiary. So whatever we produce in Myanmar we bring to our Indian units and they will partly be used for our own purpose and the premier was like the superior grade will be used for our own production and inferior grades at a lower price we sell in the market. On Laos we do both the things, partly we bring to our unit as per our requirement and then mostly we sell to outsider veneer buyer like in Myanmar we are bringing into India then grading it and then selling it but Laos we have changed the strategy now it is directly sold from Laos to other Indian buyers maybe some traders also we have inducted some traders in that because the volumes would be very large from Laos and so that would now be more or less independent process center and then Laos because if we generate face veneer also core veneer also so we are putting up some plywood factory there in two units in Laos and another three units we are constructing in Laos, so three units are already existing we shall start production within February three units we are erecting there in different areas. There are six major areas in Laos so in another three areas we are putting up again three factories so those will take another three months to commission so with that I think we would be a big player in Laos and then we would be a big player in Indian state market south veneer market.

Sameer Tulsian: Just few questions on that the follow up on that, Laos you told like the exports are banned how are we able to do that?

Sajjan Bhajanka: The exports are banned for timbers.

Sameer Tulsian: For timber okay.

Sajjan Bhajanka: Earlier like we imported this year Keuring was only available from Laos so we imported some quantity of Keuring and still we are preserving some quantity for our emergency requirement so we have some Keuring timber imported from Laos but last October it was totally banned and they are not only banned like the raw timber but they have also banned the Sone timber, so now the Sone timber also cannot be exported from Laos like in Indonesia. Indonesia they have banned both the things, like Malaysia and the Myanmar they are allowing the Sone timber they have round timber they have banned but this we are allowing, so that is the difference and veneer there is no restriction.

Sameer Tulsian: What is the estimated capex on these three unties and two plywood factories also saying and what the timeline for this any timeline for this for the two plywood factories and the three units?

Sajjan Bhajanka: Plywood factory like we are starting at a very small level. We are putting up only one pressing line each and the main idea is to utilize the core which we shall generate along with the generating face veneers, so that core importing from Laos via Vietnam to India and paying so much cost and then there is some royalty also on equal royalty on core or face veneer so the price of face veneer will be almost five to six time to core veneer so there we can absorb that royalty but on the core veneer paying that much royalty plus logistic cost so that is making it unviable and if we convert that into plywood then there is no duty there is no royalty so that way that will be economically viable.

Sameer Tulsian: So what is the capex from this any idea on what could be the amount spent on this two-plywood factory increase it?

Sajjan Bhajanka: Like the one unit we got the land from the government that is in the FDI route mainly all our lost venture we are promoting under Century Singapore Private Limited so that is our 51% subsidiary along with another group that is a Dutch Group. That is the Indian origin group and Mr. Bhagat is there and his wife is Vietnamese and she is a very businesswoman so that is our partner group and they are there and through this Century Singapore we are promoting all the units and the first model was that we associated with the three existing permits they provided us land, they provided us shed, they are providing us electrical connection and the labor quarters and office space. We only provided machines and then we provided working capital and we provide labor and staff so that way our capital investment is very less. It is confined to machines only even electricity, generator or a transformer they are provided by our licensees. So we made some event. So that way the capital expenditure in Laos was very less. Now the FDI unit to where we got the land from the government on long-term lease so that way on land we have not spent much but here we have to construct our shed, all the machines so it will be little costlier but we are starting again at a smaller level so may be in one area of **(inaudible) 28.59** we shall be filling two filling land, one area, Sullivan we shall be putting up one filling line and another area Savannakhet there we are putting up one plywood factory so all together maybe not much it may be around 30 Crores but we have decided that we will raise some equity here some debt in our Singapore unit and we shall fund this expansion from that subsidiary only and out of some profit generation and out of some debt.

Sameer Tulsian: For the particleboard plant we should not see any uptake in revenue because it would be replacing the particleboard, which was earlier imported, is that the correct understanding?

Sajjan Bhajanka: But we have reduced importing particleboard and we will see this year we have reduced this thing but it is not adding to our profit so it was not very much profitable importing particleboard and then laminating here and then selling it so we are now getting for our last year this turnover from the particularly prelaminating division it is very less it was almost maybe the 50% of the last year level Mr. Julasaria will give the figure.

Arun Julasaria: You will find it our premium sale has been falling because we are not finding it economical and profitable to produce out bought of premium board draw board on the particleboard. So we were discontinuing with the production.

Sajjan Bhajanka: We are now waiting for our plant to commission and there the raw material would be partly our timber wastage which we are burning in the boiler and now we shall be replaced by the cheaper coal and then partly we shall buy wastage of the sawmills like the wood dust, so many cutting wastage so there are around 300 sawmills around our factory near about Chennai so we are already like in touch with them we are making arrangement for the wastage to be lifted and we are finalizing for the rates and the trunks and we are negotiating that they will delivery it for Rs.1.50 or up to Rs.2 a kg depending on that so the raw material cost only go with that much.

Arun Julasaria: In fact our premium sales if you will see nine-month versus nine-month it is now 26 Crores against 33 Crores last nine-month and if I take 26 Crores in nine-months the yearly sales should be near about 30, 32 Crores whereas my after running period at full capacity after giving the value addition in the board the revenue should be somewhere near 60 Crores.

Sajjan Bhajanka: In the first year at 60%, 70% capacity and then ultimately when we shall be running at 180 cubic meter capacity then and if you are able to prelaminate everything then revenue would touch around 100 Crores.

Sameer Tulsian: Thank you.

Moderator: The next question is from the line of Avinash Agarwal from Sundaram Mutual Fund. Please Proceed.

Avinash Agarwal: Sir prelam board you said it will come by March so when can we expect sort of utilize it fully Sir?

Sajjan Bhajanka: There is no high-tech involved but maybe with gradually so personally I feel that within six months we shall reach the full capacity.

Avinash Agarwal: Sir in terms of this Laos you said that we had to pass it thorough three countries before brining it so is that the case even with veneer Sir?

Sajjan Bhajanka: It is passing mainly the three ports in Vietnam in the eastern side of Vietnam and so from Laos they have to cross Vietnam border and go to Vietnam port the other side because one side of Vietnam is sea and one side of Vietnam is this Laos so from Laos to cross sea the other direction and then from there via Singapore transiting in Singapore it comes to India and Myanmar is very simple even they have started coming from Myanmar directly to India there are Simi Corporation in itself from Yemen Port, they are now touching Indian port directly and in some cases because there is lot of export from Vietnam to other countries then there are regular basis going from Myanmar to Singapore and then coming to India, but that is little costlier those vessels are cheaper but it is much cheaper in Myanmar then Vietnam than the Laos via Vietnam so that is very costly but the logistic cost will be very high there.

Avinash Agarwal: Sir including logistics cost is in terms of landed cost what would be the price difference between what we are getting from Laos and what we are getting from Myanmar today?

Sajjan Bhajanka: **(Inaudible) 34.48** from both the veneer is the same, the category, the quality and everything is the same but our cost like labor cost is a little higher in Laos because mostly Vietnam labors they are go to Laos and they work there Laos is a very small country with 7%, 8% of the India but the population is only 0.5% of India and the economy is also very small. So only 60, 70 lakhs people are there in Laos so the availability of manpower is a challenge and there are surplus manpower in neighbouring country Vietnam and the border between Vietnam and Laos is a very forest, the people freely migrate with their identity card only, no passport and no immigration requirements are there so that way the labors they work so labor cost is higher, logistic cost is higher timber is cheaper timber in comparison to Myanmar is cheaper by around $100.

Avinash Agarwal: Sir on landed basis can you tell us because you are saying freight cost is also higher so on a landed basis what would be the kind of cost?

Sajjan Bhajanka: May be the total difference in Laos is $50 cheaper.

Avinash Agarwal: And percentage term that would be how much Sir?

Sajjan Bhajanka: Percentage of?

Avinash Agarwal: Percentage of the total value in terms of percentage what would be the difference between Laos and this thing, what is the value of the timber?

Sajjan Bhajanka: May be around 5%, 6%.

Avinash Agarwal: Sir you mentioned about our mix moving towards the lower end economy segment now but in terms of unorganized segment are you seeing them becoming more aggressive or are you seeing other our competition becoming more aggressive in the market due to the lack of demand Sir?

Sajjan Bhajanka: Overall there is less demand in the country but our organized sector is surviving basically based on the little migration from unorganized to organized so in last ten years we have increased our share from 10% to 30% and whereas the unorganized share has declined from 90% to 70% but still migration is going on but now the duty and tax implication on them is hardly 8% to 9% whereas it is 28%, 29% on us with the excise, with the rate with the CST and other things, so if GST comes at 18% then there would be say 10% saving for us and it will be 10% costlier for them, so it is difficult for them to gear this thing and then like difference at which they can sell at a lesser rate or cheaper rate than in completion to us so their minority would be over, they will not be in position to sell cheaper than us and then with a very little difference people will prefer branded products so that way this migration would be there and then again the profit margin will increase because tax implication will reduce.

Avinash Agarwal: Sir lastly on the laminate segment we have seen the revenues kind of peak out at around 80 Crores to 90 Crores so any plans of expanding capacity here?

Sajjan Bhajanka: Now like we have taken a strategy that first we shall run it on the seven day basis, then we shall get another 16%, 17% capacity so in the first phase we are planning that and we will be starting from maybe first April we shall be running the plant for few months at a 100% capacity at 100% time available without rotation basis workers would work round the week, round the month and with that we shall get some extra capacity even over and above if there is more demand and this thing so then we can expand the capacity. Then we are thinking of starting the future capacity in some different areas because now it is Eastern India only and most of other factories are in Northern India or in Western India so maybe we will choose one destination maybe near about Kandla Port or something so our next capacity we may bring there, but we are waiting for that. We are waiting for market to improve, we are waiting for GST and other things to be in place so once things are stable then we shall go for expansion and until then we shall expand the number of days from six to seven.

Avinash Agarwal: Sir one last book keeping question for Mr. Julasaria, Sir how your rupee had depreciated so how did we show a forex gain?

Arun Julasaria: As per accounting policy the interest arbitrage difference between borrowing cost, domestic currency and foreign currency have to be taken into borrowing cost and this arbitrage difference we have to compute transaction-to-transaction so in a few transactions we might have gain, in few transactions we might have lost, so gain we have to show it as a gain we cannot negativate it with the loss. For the few transactions we had gain that we have to show as a gain and the loss has been taken into borrowing cost.

Avinash Agarwal: How much of that loss sir this quarter?

Arun Julasaria: In fact in Q3 it is 3.61 Crores and in nine months all together this is 14.7 Crores and if you take the whole net of gain and loss all in nine months then it is 11.38 Crores and then it is less than the hedging cost if we would have hedge the hedging cost would have been more than this and on exposure part I should tell you we are having near about $22 million and near about 5.5 million euro exposure. Earlier it is to be 60 million plus so we have substantially reduce it to below 13 million forex exposures.

Avinash Agarwal: Very helpful Sir. Thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of Prathik Poddar from ICICI Prudential. Please Proceed.

Prathik Poddar: Sir for your overseas units could you just talk about the transfer pricing policy how is that?

Arun Julasaria: Transfer pricing policy we have to take there are two three methods which are allowed as per prevailing income tax laws in India, one is cost plus method, one is market size method, and one more method which is I mean to say competitive price method. So we definitely follow cost plus method.

Prathik Poddar: Sir to understand you have 51% stake in your overseas unit right, the remaining any other growth.

Arun Julasaria: Yes, usually we aim minimum profit margins and transfer it to India because if we need profit margins in Myanmar then we will have to repatriate it to India which will have its own complications although allowed but factoring that into pricing is easier so even take it that from Myanmar it is at in the Myanmar unit it is at no loss, no profit basis and they do not have any requirement of this transfer pricing so this is okay and they have notified the rate in Myanmar so that rating is more or less making our costing, so we are following that rate which is generally followed by all other manufacturers in Myanmar and in that way and because it is 100% subsidiary the profit is being transferred to Indian company by virtue of the low cost of the raw material. Whereas in Laos is there it is independent venture so last year because we started at the fag end and the overall volume wise not much but now it is picking up so our conscious policy is that maybe we shall be transferring it again on the cost basis thing to Singapore unit but Singapore unit to India we shall sell it in at the prevailing price in India so the profit would be booked in Singapore and whatever profit is there in Singapore because of that thing we can declare dividend there in Singapore because there is no dividend tax in Singapore and the income tax is also around 16% in Singapore. So that way maybe we shall be and our partners they will take that profit to Vietnam and our profit will come to India.

Prathik Poddar: So just to clarify this what you are saying is that the value addition from timber to veneer will be captured by the Singapore unit and Centuryply would be independent so your pricing for veneer will be in the IPP linked as in international parity price linked so you are working from Singapore unit or from any other trader in the market your rate would be the same?

Arun Julasaria: We are transferring generally the price at which we sell.

Sajjan Bhajanka: There would be some difference like this is comes with TDN that because the Century Plyboard is the biggest buyer of our Laos unit so we shall get 10% concession if anything we buy in Century there we shall get 10% concession.

Prathik Poddar: In Laos you have 51% share 51% holding for Laos unit but for Myanmar you have 100%.

Sajjan Bhajanka: Yes that is 100% on subsidiary and Myanmar we have done through the FDI route so it is 100% foreign investment route and 100% equity goes to Century.

Prathik Poddar: I am sorry I am not aware of this do you have something in Indonesia also?

Sajjan Bhajanka: Indonesia we are planning in fact. We have signed one agreement with one of the top five largest timber group in Indonesia and area which is call Banjarmasin so that is in the Kale Manthan area so there plenty of timber is there but even logistics and things are challenging there so there also we have opted for the similar model which we opted for the Laos, first three units in Laos so we have arranged with the timber group. They had one sawmill there so that sawmill they have vacated for us and so shade and everything is there, land is there, power is there and we are have been putting up only machines which we are taking from India and timber they will be supplying. So for that we have agreed in a rate mechanism and then the produce we will bring to India. More or less that mechanism is there and of the portrait we shall pay them some percentage but that percentage also we have fixed like in the first year we shall be giving a fixed profit of $15 per cubic meter of veneer and then subsequent year and highest this profitable increase to $35 but the timber price we have agreed it is a very low it is $175 in comparison to Laos $330 in comparison to Myanmar around $420.

Prathik Poddar: So Indonesia you has the cheapest price?

Sajjan Bhajanka: Yes cheapest price but we are not very sure of the quality because it will be our first venture but so far whoever gone through Indonesia they failed. They have abandoned their veneers. There are many Indian companies they have tried but there was some lacuna in that because they have not taken the machines which are capable of peeling very thin veneer like 0.27, 0.28 so they all have used old the machines available with the closed down units in Indonesia where infrastructure and the machines are nowhere comparable to the machines available in India so it may be their veneer was much thicker and the realization wise was the same, productivity was not good and I do not know but to my knowledge all the units, all the manufacturers who ventured in Indonesia so far they have failed and most of then they abandoned their business but nobody has gone through the area which we have identified. So this is our first unit we are putting up only two peeling lines like in Laos by the end of June-July we shall have 16, 17 peeling lines there in Indonesia we are putting only two peeling lines if we are successful, if the yield and everything is good then we shall go in this way.

Prathik Poddar: Thank you so much for answering my questions and all the best sir. Thank you.

Moderator: Thank you. The next question is from Avinash Agarwal from Sundaram Mutual Fund. Please Proceed.

Avinash Agarwal: Sir I just wanted to understand what is the capital that we need to put sir in Indonesia and what are we put in Laos so far?

Arun Julasaria: The capital investment in peeling units is micro veneer usually peeling machine setting up one peeling machine require hardly Rs.3 Crores and obviously the facility for drying along with boiler and gas one peeling machine on an average is Rs.5 Crores. So in Laos we have invested so far near about Rs.20 Crores on capex account and in Indonesia depending upon the peeling machines to put up it will be somewhere from 10 to 50 Crores.

Avinash Agarwal: Sir we seem to be sort of?

Arun Julasaria: We are going for different model. That is we are not investing in infrastructure, in land, in building, in power connections, in bonds, in labor quarters, like office space so we are adding in such a way. These are readily available so what we benefit is time we do not need time to construct the states and other things and the ready infrastructure and we have simply send machine from India and within two, three months we start production.

Avinash Agarwal: What could be the profitability of these units Sir?

Arun Julasaria: Because it is the initial period, we are working like Myanmar with all the property is transferred to India and it is resulting in the profit better profit for our plywood manufacturing for Indian unit by virtue of cheaper raw material and Laos it is working so now what we calculate the profit should be good, it should be minimum 20% of the turnover and this will be stabilized maybe within the first quarter of the next financial year and even this quarter should be good and so far it is almost no profit no loss situation but only thing is we stabilize the business we started the units, we are overcome that teething problems of the initiation and we have overcome to the sustenance during the off-season so that way over now we are in positive there. In Laos last figure which I have seen so there is 4, 5 Crores project is there and this quarter maybe another 10 Crores contribution would be there so this year maybe we shall be ending around 15 Crores profit and that is the independent profit of the Laos unit via Singapore and the next year onwards it should be much better.

Avinash Agarwal: This is our portion or it is just the total profitability of the unit Sir?

Sajjan Bhajanka: Total, not our portion. This 10 Crores up to this March because during this period we are not keeping any separate account we are not preoperative expenses we are not capitalizing so that way like we have kept the accounting very simple and later on we have taken again another policy decision that we shall not invest in a big way in those countries so mostly like even in Vietnam, Laos, Indonesia so this is one group. This is all under the banner of Century Singapore and there the future investments would be out of the profit generated there only. We shall not be contributing big funds from India and if need arise if there any big projects like that innovation specific one agreement we have signed with the Vietnamese government where they have provided us 60 hectares of land out of which around 40 hectares industrial would be industrial cluster, we are likely to develop. So there maybe our capital cost would be on land would be 2 million the initial payment and then there would be 6 million expenditure in developing that so that money we shall get from the institutions and then the realization from that would be around 20 million. Apart from that independently profit center this will provide us opportunity if we want to put up MDA plant in Vietnam because along with this cluster they have assured around 2 lakh hectares of the plantation to us. So any of the people n this cluster they want to put **(inaudible) 55.07** then priority from 2 lakh plantation of the Vietnamese government 2 lakhs hectares plantation. So that is one area that is 2000 square kilometers. So that way tomorrow seeing our experience in the Punjab MDA plant maybe in the next phase we shall opt for a MDA plant there in Vietnam. By that time industrial cluster would be ready and if we sell from the cluster then with the prevailing price is $50 per square meter so that way we may get for the entire 40000 salable area around 20 million against the cost of 8 million.

Avinash Agarwal: You are talking about Vietnam Sir?

Sajjan Bhajanka: Yes.

Avinash Agarwal: Thank you Sir.

Moderator: Thank you. The next question is from J. Radhakrishnan from IIFL. Please Proceed.

J. Radhakrishnan: Thanks for the opportunity. Sir just thought I checking with you on plywood margins if you see EBIT margin peeked in fourth quarter FY2015 at 19.8% and it has been continuously declining so what kind of trend you can take going forward whether it will reach at this 13% or maybe we will be able to grow?

Arun Julasaria: We have created some extra capacity but similar production we could not achieve because of market conditions and again like the costs are going up although the cost of raw material has decreased and due to that only we are able to maintain the EBITDA margins at this level, because the cost of glue has substantially decreased due to the adhesive glue all our petroleum product. So their cost has come down to almost 50%, 55%, and again the raw material we are importing from Myanmar that has also helped us to reducing the cost but at the same time if we could have achieved 25% growth which usually we achieve through last so many years then the scenario would have been different but due to the conditions and these things, we could not achieve. Last year we achieved 20% plus but this year and maybe the next year things would be much better if there is more productivity, and more utilization of the capacity then naturally EBITDA margin increases.

Sajjan Bhajanka: Radha, you will have to see this in totality because last year if you see the quarter, quarter was a bit erratic because the timber ban, people have created inventory in India which was depleting so a lot of sell downs have taken place but if you compare the EBITDA margin on nine-month-to-nine-month we will find that EBITDA margin has slightly improved from 17% to near about 18%.

Arun Julasaria: It is very consistent. All over these three quarters.

Sajjan Bhajanka: These have not gone down in fact last year first two quarters were different, last two quarters were different, so this year things are bit stable.

J. Radhakrishnan: Sir it is looking like largely it is to some extent protected because of improvement in EBIT margin of laminates because laminates margins have been substantially going up may be that is because we are…?

Arun Julasaria: Even if you see the segmental EBITDA, segmental EBITDA is also in case of plywood have slightly improved, it has not gone down I can share with you the calculations. Of course laminate our EBTIDA margins have drastically gone up from 12% to 16% even if you see the total EBITDA margins those have also gone up slightly.

J. Radhakrishnan: So what kind of EBITDA margin we can assume what kind of growth also maybe in top line we can precise?

Arun Julasaria: Safely you can expect 17% of the sustainable EBITDA margin.

J. Radhakrishnan: How much Sir sorry?

Arun Julasaria: 17%.

J. Radhakrishnan: 17% is the sustainable EBITDA margin.

Arun Julasaria: Sustainable EBITDA margins and max if you want to take you can take I mean to say 1% here or there because part of our business is result in foreign currency so we cannot predict, but as per this dollar it has substantially reduced to almost 50%.

Sajjan Bhajanka: This is limited to 1% only and not more than that.

J Radhakrishnan: Assuming that GST is not going to be there for FY2017, what kind of revenue growth we can factor in? Because you will be bringing new particleboard capacity and naturally you are going to have higher sales from that. So what kind of growth we can roughly assume?

Arun Julasaria: If you talk a growth first for FY2016, nine months have already passed rather.

J Radhakrishnan: FY2017 I am asking?

Arun Julasaria: Three month do not look very exciting, so we can talk about growth, but in 2017 again it will depend upon combination of factors. As you said, we assume GST will not come then it will depend upon the scenario of real estate. It remains like it is then the growth may be again clear at all, growth is very minimal single digit growth. Pickups then growth may be more than single digit may be in the range of double digit even. But in any case I can assure you that the profitability of company is intact.

J Radhakrishnan: That we are confident. Just thought of checking with you because you are going to replace particleboard of your own production with what you are purchasing from outside now, so what kind of EBITDA margin this can really increase?

Arun Julasaria: If I talk of EBITDA margins of particleboard alone, post particleboard I mean to say starting our own plant, the EBITDA margins in particle board will be some where near 30% to 35% depending upon capacity utilization which now are in the range of 15%.

Sajjan Bhajanka: In particleboard we use the existing land, then most of the infrastructure is existing then the money we are borrowing is in the ECV, so that is at 2% which a spread LIBOR and these thing is within 3%. So the incidence of this interest is very less and then the raw material cost is again very less and the manpower requirement in particleboard again is very less. We need very few people in particleboard and like the raw material cost would be say to make one cubic meter particleboard, we need less than one tonne of timber. So, let one tonne of timber will cost us less than Rs.2000. So, the cost of this include fuel also for making the particleboard in the boiler so including that the timber construction would be less than one tonne for one cubic meter. So, 2000 and glue cost may be equal to 2000 only, so 4000 and 1000 would be electricity cost. So our direct variable costs are these three, so totaling around Rs.5000 and realization, if we sell the board only then it will be around 11,000 and if you prelaminate and add a value then the realization would be much better. So that way the projections are much better profit in the particleboard, although because it is low cost item, the overall turnover wise, it will not contribute much at the highest capacity, highest this thing at one cubic meter for utilization, the total contribution to the revenue may be around Rs.100 Crores.

J Radhakrishnan: So, incrementally we can assume around 17% to 20% kind of EBITDA margin because of this capacity?

Sajjan Bhajanka: It will add to our overall EBITDA margin, it will not deteriorate the existing margins.

J Radhakrishnan: Perfect and just last one question. Other expenses have percentage if you see for this quarter vis-à-vis corresponding last year quarter it has gone by around 200 BPS. Is this because of some ad expense increase or you are indicating that your booking preoperative expenses something is that because of one of items?

Arun Julasaria: Pre-operative we are capitalizing though we are not booking, so the difference may be due to ad spend to marketing spend.

Sajjan Bhajanka: We are continuously spending and another is there that during the last one year most of the states they have revised the minimum wage structure. In Assam, they have revised from Rs.150 per day to Rs.250. In Bengal in last two years again from Rs.150 to they have reviewed in two, three the notification to almost to Rs.300 and similarly the Chennai has gone up and the labor cost already is high in Kandla and Punjab, because they are mostly migratory labor from Bihar. So that way this is the biggest cost in itself and this is there and I think we have to live with this, because in China in the last 7, 8 years, the levels were increased from 3000 to 30,000 per month.

J. Radhakrishnan: Last one question, can you just put a number what is the percentage ad expenses for this quarter?

Sajjan Bhajanka: Radha, I will come back, I do not have exactly.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from ICICI Prudential. Please proceed.

Rahul Agarwal: If I heard correctly you said that there are signs of improvement in the very start. So, if I know that in the last one month after your December quarter, have you seen something significant that mix you say Sir?

Sajjan Bhajanka: The third quarter is traditionally the lowest quarter. Last so many year, the turnover wise it is the lowest quarter. The fourth quarter is usually the best quarter, so that way the fourth quarter this things will be better and this quarter was coupled with high festival holidays that is reduced our working days in fee and in marketing also this was there and in spite of that almost we have maintained in comparison to the last year. We feel that things are improving. Now our friends and real estate they are telling with now the subsidiaries are taking place.

Rahul Agarwal: These sales are mainly in the upper segment or the medium segment?

Sajjan Bhajanka: Now, it is more in medium segment. Costly apartments we are still not in demand.

Rahul Agarwal: How is our branding place in the premium plywood segment?

Sajjan Bhajanka: We are already running two campaigns, one for our laminates and one we are running for our Sainik Plywood. So, we had given this particularly the premium plywood that Nana Patekar *"Parso mat roh"* we are like in the next stage we still will ramp that and the spillover this thing mileage is always there then we are running Century Laminate then again the spillover the visibility goes to Century Plywood and even in Chennai again it comes through Century Plywood. When we are promoting it *"Kum Daam, bada kaam*" so it is competitive even in comparison to Century*, "Daam kum hai," "Cost is less,* but rate is equally good, but it is stabilized the superiority of Century.

Rahul Agarwal: Last question on your continuity of division. So, how is it doing kind any this quarter also it has seen a spike and those margins also, what do you think will be going forward?

Sajjan Bhajanka: This is continuously improving and container freight station virtually we do not have variables. We have created the facility, now we are running almost at 60% capacity and we started with 25%, 30%. So like the area is same, infrastructure is same and whatever the increase in capacity comes say 60%, 70% of that is the net revenue.

Rahul Agarwal: Okay and you do not, any further capacity additions on this Sir?

Sajjan Bhajanka: Here in Kolkata we are not planning any capacity additions, the only thing is there we will start at other ports also, so that we are like working on that, but because Kolkata we import ourselves and, when we started virtually there was no capacity in Kolkata only two small CFSS were there and both in the government sector, Balmer Lawrie and CWC, so they were government companies, so ours was the first private company, and at that time we started with almost 60% share of the total, so their share together was 40% and one and two more CFSS has come of the smaller capacity, one is Container Corporation and another is some private player.

Rahul Agarwal: Sir I had heard clear you are saying that you are planning for other ports as well?

Sajjan Bhajanka: We are just, at the moment we are in the survey stage, so we have not taken any concrete decision.

Rahul Agarwal: That is all my side. Thank you.

Moderator: Thank you. The next question is from the line of Devang Mehta from Canara Robeco. Please proceed.

Devang Mehta: Just couple of questions on royalty we are paying in Laos. What is the royalty percentage at Laos and how it is borne, it is borne through the Singapore subsidy or through Laos Company?

Sajjan Bhajanka: In Myanmar, it is included into the timber and so it is included in the cost of timber after that there is no royalty, but in Laos recently they have put some export duty on the veneers, but it is on muster basis, it is not on the like the value percentage or this thing so it is fixed although with the timber value they say it is a very higher percentage, but in the like dollar terms, it is not much and we are working on that and we are hopeful that if they are processed properly, this is the first time they have imposed an export duty on veneers, so we are working with the governments and we are hopeful that we will get it either totally abolished or it will be reduced, but so far constantly we are not doing it.

Devang Mehta: We are already running nine I understand nine peeling machines in Laos in the three units?

Sajjan Bhajanka: Now we have nine units rather ten peeling houses, out of three units two are under installation, total we shall have 11 or 12 units.

Devang Mehta: By July, August do you expect it to be 16, 17 units peeling lines?

Sajjan Bhajanka: Total like in three more units, which we are contemplating. There are four to five further lines we will put.

Devang Mehta: Can you throw some light on the capex this year and next year, next year you can give some break up between the MDF and Laos and domestically what all things you are doing, just some breakup on capex?

Sajjan Bhajanka: Now present capex in Laos may be from our Century side apart from our partners there it is within Rs.30 Crores and then again, we have decided not to invest further funds from India, so basically it will be out of the generation, so future expansions, investments would be from generations and now in one unit we are having good generation and may be when the three units will start so we simply generating good money on day to day basis and from June onwards it will further improve and our partners, they invest almost equal amount, so total capex in Laos at the moment it is around Rs.60 Crores.

Devang Mehta: This is for three additional units?

Arun Julasaria: I can give you the basic idea. In FY2016 what I have already incurred is about Rs.55 Crores of my particleboard plant, I made about Rs.20 Crores on my Laos facilities and made about Rs.15 Crores on my corporate building and then for my upcoming MDF plant I have already incurred Rs.30 Crores, so out of Rs.400 Crores Rs.30 Crores I have already incurred and in the next six months I am likely to incur Rs.30 Crores more in next two months, I mean to say and the balance more amount of this MDF plant will be incurred in next year and in next year we do not have any more capex plan except this MDF.

Devang Mehta: Nothing domestic?

Arun Julasaria: That means 60 will be spent in this year and about 340 will be spending next year.

Sajjan Bhajanka: Like 340 out of which 200 plus we shall get from FIIs may be around 70%.

Devang Mehta: Nothing in the domestic ply?

Arun Julasaria: Domestically we are comfortable with the capacity as Chairman Sir said.

Devang Mehta: More of outsourcing..

Arun Julasaria: We are waiting for laminate capacity to consolidate by running it on seven days basis, once you consolidate and we are then sure of consolidation then we will think of further expanding two lines, but nothing is there at the moment.

Sajjan Bhajanka: Last two years in plywood we have created some capacity, so this year we could not utilize to the full extent, so now 25%, 30% spare capacity we have, the moment demand is there we are capable to get it by 20% or 30%.

Devang Mehta: That is it from my side. Thank you.

Moderator: Ladies and gentlemen, due to time constraint that was the last question, I now hand the conference over to the management for closing remarks, over to you.

Sajjan Bhajanka: Friends, thank you very much. Today we have spared a lot of time and to the best of our knowledge and to the best of our belief we have tried to give you the true picture and the real picture and may be something beyond this thing even at the risk of divulging some internal things to you, but you are our shareholder and this is the only one occasion we get to share the information with you, so we have not said anything to the best of our knowledge we have shared with you.

Arun Julasaria: I shall be available in upcoming conferences in Mumbai in February so if you want to discuss anything in detail I shall be available in quarter conference, and tea conference and few more conferences and you can also call me at anytime if you want to discuss anything in detail. Thank you.

Sajjan Bhajanka: Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Ambit Capital that concludes today's conference call. Thank you all for joining us. You may disconnect your lines now.