"Century Plyboards Limited Q3 FY2018 Results Call"

February 06, 2018

ANALYST: **MR. SAMEEP KASBEKAR - EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. SAJJAN BHAJANKA – CHAIRMAN – CENTURY PLYBOARDS LIMITED**
MR. KESHAV BHAJANKA – EXECUTIVE DIRECTOR – CENTURY PLYBOARDS LIMITED
MR. ARUN JULASARIA - CHIEF FINANCIAL OFFICER – CENTURY PLYBOARDS LIMITED
MR. SANJAY AGARWAL - MANAGING DIRECTOR – CENTURY PLYBOARDS LIMITED MR. ABHISHEK RATHI – INVESTOR RELATION EXECUTIVE – CENTURY PLYBOARDS LIMITED

Moderator: Ladies and gentlemen, welcome to the Q3 FY2018 Results Call of Century Plyboards Limited hosted by Emkay Global Financial Services. We have with us today, Mr. Sajjan Bhajanka, Chairman, Mr. Keshav Bhanjanka, Executive Director, and Mr. Arun Julasaria, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance, during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sameep Kasbekar of Emkay Global. Thank you and over to you Sir!

Sameep Kasbekar: Thank you Natasha. Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now handover the call to the management for their opening remarks. Over to you Sir!

Sajjan Bhajanka: Thank you. Good afternoon friends. My colleague, Sanjay Agarwal, MD and CEO, and Keshav, my son and Executive Director and Mr. Julasaria, our CFO of the Company are accompanying me.

Now I would hand over to Mr. Julasaria, CFO to take you through the key financial data for current quarter post, which we are open for question and answers.

Arun Julasaria: Good afternoon, ladies and gentlemen. Before I start, I would like to repeat the customary disclaimer that this call is just only to discuss the Company's historical numbers and future outlook. It should be in no way be taken as invitation to invest in the company.

The financial results along with analytical presentation is already informed through our website and mailed also to most of you. So I will just take you through macro figures.

At macro level, results are consistent and satisfactory. For the YOY basis, the topline increased from 425 Crores to 510 Crores, posting a growth of 20%. Out of this total growth of 20%, 9% growth came from the existing businesses and balance 11% came from newly commenced MDF unit.

If you compare quarter-on-quarter that is the Q2 with Q3 the topline increased from 474.5 Crores to 510 Crores with a growth of 7.5% and as you all know that Q3 is a festival quarter and there is no seasonality in our business, but still, sales did grow due to festival season in Q3 so, in the Q3 the growth from the existing businesses was not there. Growth was mainly on account of newly setup MDF unit.

Nine months to nine month basis topline increased from 1294 Crores to 1423 Crores with a growth of 10%, out of this total growth of 10% 6.3% growth came from existing businesses and balance 3.7% came from newly commercialized MDF unit.

Blended EBITDA margins for the quarter are 18% against 15.7% in Q2 as against 16.6% in Q3 last year. So nine months EBITDA is 16% as against 16.8% last year. EBITDA margins for the quarter for plywood are 14.1%, for laminates it is 14.8%, for MDF it is 20%, for particleboard 24%, and for logistic business it is 40%.

EBITDA margin showed MDF improved with increase in capacity utilisation, which for the quarter was nearly 53%. Net profit after tax is Rs.46.6 Crores as against Rs.40.1 Crores in Q2 and against 37.3 Crores in Q3 last year.

For nine months, the net profit is 120.92 Crores as against 129.65 Crores last year. On percentage basis the net profit is 9.1% as against 8.5% in Q2 and 8.8% in Q3 last year. Tax rate 8% of PBT is now paid at 22%, which is at MAT rate. Profitability of plywood segment is lower compared to previous year mainly due to lower profitability in our Assam unit reasons for which will be explained later on.

Profitability for laminated segment is more or less stable rather better compared to last year, but if you compare with Q2 it is lower for the reason explained that Q3 is a weak on an account of sale. CFS segment returns were all above. MDF business commenced production with effect from October 3, and I am happy to announce in the very first quarter we have posted profit in that unit. Capacities are ramping up and expect this higher capacity very soon. On foreign exchange front, we had around US $47 million and 7 million Euro exposure. The value exposure is around 357 Crores compared to last quarter USD depreciated by 2% and Euro by 1%. The strengthening of rupee helped us to recover all exchange definite loss in the second quarter and now we are ended up with the gain of around 1.44 Crores till December 31, 2017. Now I request you to go ahead with your questions, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: Good afternoon Sirs. A few questions from me; first one was in the plywood, if you look at the quarter December your volumes grow at 5%, which is very similar to the nine-month volume growth also, so given that GST is about six months, seven months behind and there were a lot of disruptions in the unorganized space, what exactly is happening now and why is the volume growth still at 4%, 5% and given the December was, let us say, demonetisation base quarter, so growths should have been little better, so what happened Sir here?

Sajjan Bhajanka: Actually like GST was supposed to be triggered for the higher growth, but in real sense it could not attend because it was not a company with the E-way bill and all the borders were dismantled, so if you see for the unorganized sector they are moving material from one state to another very freely. There were no checks, there were no measures so that was happening and another things they put the plywood in 28% bracket and from day one that means from the July 1 there were levers that it will be reviewed, it will be reviewed to 18%, so the channel in the meanwhile that dried up themselves totally. In anticipation that the rate will come down from 28% to 18% and finally it happened, but it was notified on November 15, 2017 only, so whatever the good impact of GST, we have received that is also partly we have received and that is with affect from November 15, 2017, not prior to that, one-and-half was once passed before that and now again E-way bill they were supposed to implemented from February 1, 2018 that as you all know that there was a total collapse so now I think it will take some more time.

Nitin Bhasin: So, basically then that means for the whole year FY2018, a 4%, 5%, 6% volume growth for the old ply business should be the norm in the fourth quarter also?

Sajjan Bhajanka: Yes, because E-way bill yet to be effective, so I think this year it will pass like this only.

Keshav Bhajanka: Nitin, just to add to that, last year the demonetisation quarter was actually one of our best quarters During the time period the equity in the unorganized sector had reduced considerably, as such the primary beneficiaries were the organised players. It was a good quarter for us and we have grown on top of that and I am sure as and when the E-way bill is fully implemented, we will see the benefits. Having said that even Q4 should see slightly higher growth because the GST rate has reduced from 28% to 18% so we will definitely get the benefit of the same.

Nitin Bhasin: Just remaining on this, is there any change in the split of plywood sold between Sainik and the higher goods because your realization has come at about 9% higher Y-O-Y and Q-on-Q is there any change in the mix of the ply sold?

Arun Julasaria: Yes, the Sainik volume was down and plywood volume was up.

Nitin Bhasin: Sir how much is Sainik today as a share and how much is it down in volumes?

Arun Julasaria: I will just tell you. Give me a minute; meanwhile you go ahead with your questions.

Nitin Bhasin: Sir, my another question would be the commercial veneer because commercial veneer is sold by you in the market to the other plywood manufacturers, if you look at it on a Y-O-Y basis your commercial veneer volumes are up 20% and even on Q-on-Q basis so is it that the other market outside X Century is doing relatively higher growth who are these people who are buying this commercial veneer and why such a big growth?

Sajjan Bhajanka: Commercial veneer actually again we are that to importing timber and now we have shifted from Gurjan to say varieties from Solomon Island so we are importing, we are filling at all other plants and some veneer we are importing from Myanmar is Laos also, so Laos it has stopped, but until November we imported, so the imported timber converted into veneer in India then veneer import from Myanmar and partly from Laos. These all contributed to this and whatever we are dealing it is the costlier veneer and wherein now in market the maximum veneer is coming from Gabon and that the price is almost half of the Gurjan or Pencil Cedar.

Nitin Bhasin: Just remaining on that Sir, my question was who are these people who are buying this veneer from you and are these players growing much faster than your total overall plywood sales?

Sajjan Bhajanka: You know, the veneers meaning all the plywoods manufacturers they need veneer. They need fresh veneer and like Century while from the inception market leader in fresh veneer. When we are importing timber, Century was the leader in all our four factories, we were importing timber and producing veneer and now also whatever like the market linkage are there, still we are preferred supplier of veneer, but there is no synergy between like we are selling veneer or somebody is buying it is always somebody may increase production because unorganized last few months were good for them because of there were no barriers, there were no checks and measures so although they were very apprehensive this GST will put them in problem but far it has not happened.

Nitin Bhasin: Sir, my last question any price increase that you have taken in the last one or two months?

Sajjan Bhajanka: No, in veneer we have not increased so far and we will take because you know GST was introduced so on laminates from the inception, they have put 18% bracket and we have to pass on the entire benefit to the markets.

Nitin Bhasin: So that entire 9% average increase in plywood price is a function of mix change and no price increase?

Sajjan Bhajanka: No price increase because the price on plywood also it is being reduced in November only and that time also we have to pass on the entire benefit to the market because antiprofiteering clause was operative and government was quite vigilant on that, but now as sufficient time has passed and even the power price, the labour price and even the raw material price is constantly increasing so now we will take some price increase.

Nitin Bhasin: So that if Arun Ji could give us that breakup Y-O-Y and Q-O-Q volumes have remained stagnant?

Arun Julasaria: Yes, Nitin this Sainik volume Y-O-Y were down by 14% and Q-on-Q it was down by 29%.

Nitin Bhasin: 29% and so what is the share today of Sainik today?

Arun Julasaria: You want on 21%?

Nitin Bhasin: Sir, 21%.

Arun Julasaria: Yes.

Nitin Bhasin: So basically out of 50000 tonnes or 50000 CBM, 10000 CBM will be?

Arun Julasaria: 10000, yes.

Nitin Bhasin: Okay Sir. Thanks a lot. I will come back for one or two questions later. Thank you.

Moderator: Thank you. The next question is from the line of Sneha Talreja from Edelweiss Broking Limited. Please go ahead.

Sneha Talreja: Thanks a lot for taking my questions. It was more pertaining to the laminate segment. We have seen the growth actually coming down, so we have reported 12% growth in the laminate segment can you give us breakup what would be the growth in the domestic as it as export markets separately?

Keshav Bhajanka: I think year-on-year domestic and export more or less have grown along the similar lines. The growth was less during last quarter because we commissioned on a very higher based to begin with, Q3 for us last year was a very good quarter and Q2 since the change had become 18%, a lot of people had increased sales and may be had stocked up in material so going forward they are looking forward to 15% to 20% volume growth in Q4 itself.

Sneha Talreja: And what about pricing has there been any price increase, which has been taken by you?

Keshav Bhajanka: Last quarter there was an increase in raw material cost, which we did not pass on to the market, but this quarter we have already passed on a price increase to the market on February 1, 2018 and this is close to about 3% that is the only price increase that we have planned as of now.

Sneha Talreja: That is the purely passing on the raw material cost?

Keshav Bhajanka: Yes, exactly.

Sneha Talreja: Sir, secondly on the commercial veneer segment, if I look at your realization they have been pretty volatile since the beginning, but we have seen a kind of 35% drop in the realization any particular reason? You have explained the reason for the increase in volumes for the same?

Sajjan Bhajanka: Actually earlier mostly it used to be Gurjan veneer, which used to be very costly and now because the Gurjan timber we used to import at $600 plus and now this PQ timber from Solomon Islands we are importing at $350, so similarly the price of the end product is also low so even if the volume is higher the realization is low, so mostly we are marketing is PQ veneer and Pencil Cedar.

Sneha Talreja: Sir in that way we should even see some kind of expansion in plywood segments margin because the raw material cost is also reducing?

Sajjan Bhajanka: Yes, we are able to maintain our profitability at this level, so in spite of increase in the glue cost, labour cost, power cost that is mainly on an account of the reduction in the cost of veneer.

Sneha Talreja: Sir, one last question from my end was could you explain the current scenario in the plywood segment? How is it panning out versus the unorganized segment? Are we seeing some kind of shift, which is happening or still because even the unorganized segment continue to dominate because there are no checkposts and all available?

Sajjan Bhajanka: So far it is more or less the similar features, which used to prevail earlier not much impact, but only thing the 18% duty that has helped us because then the gap between unorganized and organized it has substantially reduced and now like in 18% we get almost 9% input credit whereas the unorganized sector they do resort to understand removal, so they lose 7% to 8% input credit because on glue and on vinyl that to pay GST, which they are not able to recover. So the effective gap, which used to be around 25% plus earlier now, it has reduced to say 7% to 8%. So that is helping us and because there to increase price our price we are maintaining as the same rate and another 10% when we pass to the market, so our price decreased whereas they could not decrease their price, so unorganized price is remaining. So earlier there was around 35% to 40% gap between us and unorganized. Now it has reduced to say 20% to 25%. So people prefer to buy branded products buy Century product with a lower difference.

Sneha Talreja: Sir in that case why did our Sainik volume decline because that is a second, which is competing the most with the unorganized segment?

Sajjan Bhajanka: Now one thing that the time the products has become cheapest, so I think one reason is that and now we are concentrating more on our own practice, so usually we manufacture the first prime, but maybe I will just ask, Mr. Julasaria if he has any explanation.

Arun Julasaria: Sainik price did not go down anywhere and the price of the Prime has gone down.

Sneha Talreja: Sir what may be the reason for the pricing of Sainik going down raw material would still decline even for Sainik?

Arun Julasaria: No because Sainik is mostly procured.

Sajjan Bhajanka: Sainik is outsourced. The price of the unorganized it is not reduced and like our Prime we have straightaway passed on 10% benefit from 28% to 18%, so the Prime product is reduced by 10%. I think in the same material.

Sanjay Agarwal: Because we sourcing the Sainik from outside and we were paying full duty from initially, means actually they were coming from the unorganized people, so the cost has not really gone down from organized people at all.

Sneha Talreja: Got that Sir. Sir one last question if I may be allowed MDF segment. Sir basically just wanted to know the initial phase has been more of channel filling and all in the MDF segment how has been the response for MDF, which are the markets that we are targeting because we have a plan in the North if you could just give us the initial feedback on MDF segment?

Sanjay Agarwal: Please repeat the question?

Sneha Talreja: Sir just wanted to know this has been the first quarter MDF operations so just wanted to know your feedback from the market, which are the markets that we are targeting since the plant has come up in the North and how has been the channel feedback and if at all you could give some kind of dealer network that we have added in the MDF segment?

Sanjay Agarwal Practically we have achieved as far as the dealer segment development is concerned, I think we have crossed more than 60% to 65% of the dealer segment we made and the sale in the month of December you will see we have reached 10000 cubic meters, so that itself also says that markets has received us very well and the quality also is absolutely acceptable apart from some small, small things here and there, yes that kind of small complaints are always there. As far as this 10000 cubic meter now people ask me that how come you could sell 10000 cubic meters in a particular month whereas the production has really gone up from about 1100 to say 1700 to 1800 cubic meter in the north. Some off we have taken up some share from others, but mostly the market is really growing. So our competitors have not gown down too much, but we have really grown and in this we are selling about 70%, but we are into north and 30% material goes into west, south and east.

Sajjan Bhajanka: I will give you a broader picture. Now China their MDF production is 14 million tonnes and in India now the combined production of all the manufacturer is 1 million tonnes per annum, so there is lot of gap and the limitation in market is the supply, so until say seven to eight years back only 200 cubic meters per day was the indigenous capacity. Around eight years back Green and Bajaj Hindustan they all started. At that time around 12000-capacity was introduced and within a year entire capacity was consumed and still India was importing MDF may be in the incremental order of 50% per annum year-to-year basis. So that was the situation. Now I am sure that in another five years, we shall be selling minimum 5 million tonnes in India five times of the present production. So that way this is a very dynamic market and it is very versatile product and it is yet to be introduced into the general furniture, household furniture, but now carpenters have started using it, so another question could be it would be a challenge to plywood, but actually if you go by China's example this will not happen because China's total panel production is 120 million cubic meters, so still plywood is maintaining the dominating role. Plywood production in China is 60 million cubic meters, MDF is 40 million cubic meters and particle board is 20 million cubic meters, but the all along plywood kept growing although from zero MDF and particleboard they have occupied 50% of presence there, but all along plywood was growing. So in India also we expect plywood will keep growing because per capita panel consumption in India is very, very less in comparison to European countries and in comparison to developed countries. It is hardly 2 square meters per person in India whereas in Europe and other countries it is 50 to 60 square meters. So now with the development of housing and other things as a whole this will grow.

Sneha Talreja: Thanks a lot Sir and all the best.

Moderator: Thank you. We have the question from the line of Gaurang Ved from Ved Capital Advisors. Please go ahead.

Gaurang Ved: Thank you for the opportunity. Sir what we understand from publicly available number is our Indian Plywood Industry revenue is around Rs.18000 Crores with share of organized player of around 25% and the rest 75% is unorganized, so Sir can you please tell us what have been the overall industry growth rate in the last three years and what will be the overall plywood industry size in the next three to five years and where do you see the share of organized players in the next three to five years?

Sajjan Bhajanka: Plywood is growing from the last so many years at a rate of 15% plus, but now in future with the introduction of MDF and particleboard and many units are being set in this sector, so I think now onwards MDF and particleboard they will have a very robust growth maybe 20% to 25% and that will have some impact on plywood growth, so plywood may not be in the position to maintain 15% plus growth, but I am sure there would be growth between 5% to 10% on plywood.

Gaurang Ved: What will be share of Sir organized and unorganized pie can you please comment over a medium term?

Sajjan Bhajanka: Organized will grow because now almost level playing field is there and with the introduction of E-Way Bill and all the likelihood from April 1, 2018 it would be a reality, so like that artificial pricing difference will be almost over and with that at the cost of unorganized, organize will grow.

Gaurang Ved: Perfect Sir. Sir my question pertains to our MDF plant, so what utilizations do you see for the next year for FY2019 and what will be the approximate realization you are assuming?

Sajjan Bhajanka: Next year we shall operate at 80% plus.

Gaurang Ved: With what realization Sir?

Sajjan Bhajanka: Now presently, Sanjay would you like to comment?

Sanjay Agarwal: Our realization in different zones is actually it ranges from about 2300 per cubic meters to somewhere maybe I think 19000 or 18500 per cubic meters depending on different, different regions.

Sajjan Bhajanka: This is expected realization.

Sanjay Agarwal: This realization or quarter realization is after paying all the taxes and everything. This is our realization presently and in the month of December we have sold 10000 cubic meters and our capacity at 600 cubic meters tells you that our capacity is about 17000 cubic meters per month. This month itself I think we will cross about 70% of our capacity utilization or 67% certainly. So in the next year I believe that we should be on an average of 80% plus capacity utilization.

Gaurang Ved: What EBITDA margins should we assume Sir for the next year?

Sajjan Bhajanka: Arun Ji, I think you will be a more appropriate person to reply to this.

Arun Julasaria: In fact right now for this quarter, we operated at around 53% capacity utilization and our EBITDA margins were 21%, so when the capacity will ramp up further EBITDA margins will improve. We can say with every 10% increase in capacity utilization the EBITDA margins should improve by around 2%, so once we reach 90% EBITDA margins should be near to about 28% to 29% and again that will depend on average realizations, which for the quarter was around Rs.20640. Till now we have shown what we could feel so, but once we push up the whole product in the market there may be price competition, so EBITDA margins will then depend upon that.

Gaurang Ved: Thanks Sir. Sir just to build on that Sir during Q2 concall you have said that if you see our MDF plant operating at 80% to 85% plus utilization in FY2019 then you may go for a further expansion of your MDF capacity, so can you please share your thoughts on that please?

Sajjan Bhajanka: I have already spoken that like there would be a minimum five times capacity in another five years in India. So definitely the existing player they will put up more plan like Green is putting a second plant in south. Similarly we shall put more plants and there could be expansion in capacity without doubt because market will grow, demand would be there and like plywood, then MDF plants would come on the regional basis, so like now we have started in north so may be we shall put up a plant in south, we shall put up a plant in east, so that will happen.

Gaurang Ved: Sir my question was relating to our existing plant whatever I understood previously from you is even the existing plants, which our existing MDF plant in north what we have understood from you previously was that that plant also we can double the capacity within a six to nine months timeframe what we understood, is our understanding correct Sir, so that is why my question related to that?

Sajjan Bhajanka: We have changed our strategy a bit. So this plant we are putting up second line and second line would be with little less capacity. It will not be having 600 cubic meters per day capacity, it will be having 400 cubic meters capacity and that will produce 1mm to 4mm, so our existing land will produce a thicker material, so that sort of thing we are planning, so we will enhance the capacity of this plant and may be we will take from 600 to 1000 tonnes and it will take one year because now we have to order the machines, it will come, install, other infrastructure is existing, but minimum one year we should take from now and in the meanwhile we are planning some other plants also like we have given expression of putting our plant in UP because in times to come UP would be a very good market for MDF consumption and then we are even planning to put up a plant in Assam and that would be manufacturing MDF like out of bamboo.

Gaurang Ved: Perfect Sir. Just last one more question, I am referring to slide #20 of investor presentation, in that there is an increase in loan from related parties, amount to Rs.142 Crores, so can you please elaborate on what is the nature of this transaction?

Arun Julasaria: In fact we have taken unsecured loans from our promoters, promoters saved extra money, so they had given into the company and we are borrowing it at arms length price, so lowest pay rate at which we can borrow is commercial papers, which is 6.75%, so we are borrowing from promoters at 6.75%.

Gaurang Ved: Is this just for a short-term nature or it will continue from now onwards in your books?

Arun Julasaria: It is repayable loan. In fact if I borrow by way of cash credit rate is near about 9%, if I raise, commercial papers I can raise at 6.75% to 7%, so if promoters have extra money and they want to give at arms length price, we find no harm in taking from them. That is free and we can pay back anytime whereas in case of commercial papers we are time bound, you cannot prepay it and I borrow in cash credit rate is high.

Sajjan Bhajanka: But like now our utilization of cash credit, from the cash credit account is nil. Yesterday we were discussing in the board meeting and we have explained to all the directors also that our cash credit limit is Rs.300 Crores plus, so we are broke down to nil and instead of 9% we are raising this money at 6.75%, so that is just to benefit the company and at the same time, we could have deployed this money in FD or other things at 6.5%, so instead we prefer to give it t our company whereas indirectly we are benefited due to the decrease in the interest cost of our company.

Gaurang Ved: Fine Sir. Thank you and wish you all the best for the future end.

Moderator: Thank you. We have the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir. I am sorry if this has been a bit of repetition because I just logged in the call late just wanted to ask the reasons for raw material costing as you said is probably reduced I did not understand that part? Just also want to ask you why are the plywood margins still not kind of seen an improvement, what is your take on that front Sir, if you could just give us some clarity on that part and despite the fact that you have started using the different timber, why is the margins got impacted, I did not get that I am sorry Sir?

Sajjan Bhajanka: There is only one raw material, which cost is reduced that is faced veneer. Earlier we were using 100% Gurjan and now except few products we have shifted to PQ Veneer that variety, which is imported from Solomon Islands and which is imported at the cost of 60%, other than this all other raw material price has increased like for the adhesives price has increased, Core Veneer is more or less same and the labour cost has increased because every year there is upward revision in the labour rate and the power rate is also increasing, so overall there is increase, but the only thing, which reduced our cost is the faced veneer made out of the PQ timber, but overall there is pressure on the price and as I have explained earlier that because the reduction of GST from 28% to 18% and the non-profiteering clause while operating, so we had to pass on the entire benefit both the times earlier on laminates and now on plywood to the market and we could not play with that because it would have been very difficult to explain to them, now we are waiting, now we will take corrective measures.

Prashant Kutty: So we might look at taking price hikes, price hikes you might require Sir to kind of offset this current increase?

Sajjan Bhajanka: Generally plywood be very, very stable and at a time we do not increase price too much, so it would be between 3% to 5% range.

Arun Julasaria: One of the raw material we were procuring at our Assam unit that was pine plants, which are used to make block board, prices of that has gone up by almost 50% compared to last year.

Prashant Kutty: What is that raw material Sir, I am sorry I cannot get it, you said?

Arun Julasaria: We were procuring pine plants, which are used for making block board. Chairman will explain it.

Prashant Kutty: I got it.

Sajjan Bhajanka: Like in our Guwahati unit we were making maximum block board and those were made of the pine timber available in northeast only and mostly from Meghalaya. So last year Government did not allow cutting of the trees, they could not approve the working plan for the forest, so the people they could not cut pine trees and price increased from Rs.240 to Rs.400, so that is not the entire cost, it is part of the cost, pine plants, so it eroded out profitability from Guwahati unit to every extent, even in between we have to take net sale from Punjab to Guwahati to maintain our production, but now the material is started arriving, the price has come down from Rs.400 to Rs.300, so now I think in that way things are better.

Prashant Kutty: Second question over here on the, we realize we have always spoken about one thing that we have been waiting for the E-Way bill to come and that will probably help improve the share of organized that is one thing which you have been taking about it actually, now with that thing kind of pretty much into effect do we really see a sharper increase because one of the thing, which we had was GST was a 28% that was an impact for us that changed to 18%. Second thing is now probably we are looking at the E-Way Bill now, even that is probably going to get sorted out as well, do we feel at this point of time with E-Way Bill coming would be there be a near-term disruption and may be thereafter it will improve or you think E-Way Bill should not be causing any problem and it will probably help the organized significantly?

Sajjan Bhajanka: E-Way Bill definitely will help organized player at the cost of unorganized, there would be migration from unorganized to organized, organized you will grow faster.

Prashant Kutty: Are we expecting any disruption in the near-term because of E-Way Bill because even your channel will have to adjust to this entire new process altogether, so are we expecting some kind of a channel disruption again?

Sajjan Bhajanka: There could be some disruption because when demonetisation took place that time we are expecting our sales will go down, but it did not happen because the unorganized player they were disrupted the most because they were based on the cash economy only and that time there was acute cash crunch, so they had big problem freighting and continuing whereas like ourselves that time we are increasing, so there would be some disruption. This could be overall may be there would be less growth of that from the organized plus unorganized together, but organized will grow. It will party grow on the growth of the industry and partly it will grow at the cost of unorganized.

Prashant Kutty: Currently the organized and unorganized would be growing at a similar pace?

Sajjan Bhajanka: No.

Prashant Kutty: No, okay organized will still be growing ahead?

Sajjan Bhajanka: Yes, already they are growing, but earlier the situation was 1090, so from 1090 when the last time in 2007 Government of India reduced duty on plywood, excise on plywood from 16% to 8% and that time within two, three years organized sector gained from 10% to 20%, 25% due to this duty reduction and now again the same thing is happening and this time it will have double impact because on the one hand duty with effective implication on us is hardly 10%, so out of 18%, 8%, 9% we get the input credit and unorganized players they also pay the duty on the GST on the inputs and if they go for global they do not get input credit, this is one thing and second thing when the E-Way Bill would be introduced then they have to comply fully. Only thing would be they may resort to partly under billing, so instead of full billing, they will partly take cash, partly they will take cheque, but then Government is very determined to not to allow this because they have put many conditions, they will fix broad price for all the products, they will see the billing price is less, they may consciously check the product and even quantity is less and then also suppose declared quantities 6000 square meters and actual quantity 10000 square meters in that case also there is a steep panel product provisions, so if government is successful in implementing all these things then at least this unfair practices would be over.

Prashant Kutty: The only reason I asked you that was because I remember you were speaking about two, three quarters back that because the E-Way Bill has not yet come, the unorganized guys were growing really fast, so that is the reason I asked you that part?

Sajjan Bhajanka: Yes that time they had free.

Prashant Kutty: That has reduced now.

Sajjan Bhajanka: That is reduced on account of reduction in duty from 28% to 18%, but not on the E-Way Bill, E-Way Bill is to be implemented. E-way bill is yet to be implemented and it is impact. The moment is effective it will help the organized sector substantially.

Prashant Kutty: I will be back in the queue. Thank you very much.

Moderator: Thank you so much. We have the next question from the line of Ashish from Anand Rathi Financial Services Limited. Please go ahead.

Ashish: Thank you. My question pertains to your capex plan. In the last quarter presentation, I am referring to Q2 quarter total capex for FY2018 was planned at Rs.243 Crores while in this quarter it has reduced to Rs.185 Crores. So can you elaborate and also if I notice that there is a complete reduction of Rs.30 Crores in the MDF division, if you can highlight?

Arun Julasaria: There is saving in capital cost of MDF plant. We planned at 380 and now we will end up with 350 or even less.

Ashish: That is the saving part not the…

Arun Julasaria: That is the saving part.

Ashish: But in FY2018 there are other reductions also to the tune of Rs.58 Crores, all these on account of savings or you have scrapped some?

Arun Julasaria: Basically on account of savings.

Sajjan Bhajanka: There are two things. One is the reduction in the cost because we could implement the MDF project very fast. We get the groundbreaking in the month of April and we brought out the trial production in the month of July, so almost in 16 months we could start the plant and then the commercial production was started that it is also one-and-a-half year. Within 18 months we could start the commercial production and then another is in the meanwhile we are having the money, so that is like our borrowing were again reduced we have not total sanctioned amount against MDF plant. We had a sanction of Rs.290 Crores, but we have availed 180 Crores, but some apart from this we will find it those projects which have supposed to finish this year only we have deferred in next year, so that is one reason for the difference because the project is little delayed for certain reasons.

Ashish: Right, second question is on the capacity at MDF, you mentioned it 17000 per month right?

Arun Julasaria: It is Rs.2 lakh cubic meter per year.

Ashish: So that is around 17000 that means 50000 a quarter, but in Q3 we reported around 21000, so it is 40% capacity utilization not 53% which you mentioned earlier?

Arun Julasaria: It is the same figure. It is not production figure. What you are finding in presentation are sales, not production figure.

Ashish: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial Limited. Please go ahead.

Achal Lohade: Thank you for the opportunity Sirs. Could you please talk about the MDF in terms of how much of the channel we have already supplied the material, in terms of the SKUs of what thickness we are talking about at this point in time for our MDF plant?

Sanjay Agarwal: Will you please repeat the question?

Achal Lohade: Sure, I wanted to understand for the third quarter what is the popular SKU, what kind of the MDF thickness we are currently making and the realization in north as well as south?

Sanjay Agarwal: You see our north realizations are about somewhere between Rs.21000 and say Rs.23000 depending upon the thickness, there are thickness which are Rs.20000 also and like if you go to Kerala then our realization is also again very good because of DWR the realizations are more than Rs.24000, but then the realizations which go to about Rs.17500 from south also, but these are all at factory realizations. As far as the thickness are concerned, which is the most popular thickness which was in month of December was 2.1, which we introduced at that time and 5.5mm and 7mm and then on the higher side, we have at this 16.75mm was a good thickness, but this keeps on changing I can tell you because the MDF is a very typical item at sometime it is handicrafts has picked up, so they have a very different thickness requirement, if furniture is picking up, furniture will have a very different requirement, so it keeps on changing.

Achal Lohade: Basically we are able to like all types?

Sanjay Agarwal: Yes, we are making from 2.1mm thickness up to till 35mm we are making, so it makes no difference and we are ready to introduce even if there is a change in thickness required in a very bulk quantities of 400, 500, 300 cubic meters we can even service at times is a very particular thickness also it really makes no difference.

Achal Lohade: Would margins be higher in that case high of the thickness, high of the margin or nothing?

Sanjay Agarwal: No, margins I should say not very much varying. The margins are varying from June to June mainly if I have to service somebody in south then the margins are little lesser because the transport costs are higher for me, so the difference is because of the area we serve, thickness wise, there is a little bit of a difference if I sell everything in north then my realization is anywhere between 19000 and 21500 or 22000, so there is some difference in my realization.

Achal Lohade: Right and my next question was in terms of the raw material costing, what is the costing broadly and what is the overhead for the plant on an annual basis, the factory overheads?

Sajjan Bhajanka: Because we did the first quarter, we have shown them and still things are setting now because final overhead will come when we are almost 80% plus capacity, so roughly it is almost Rs.10000, the variable cost that includes power, raw material and glue and then there are less interest depreciation and labour. So roughly on the EBITDA level is the cost 25% in the EBITDA.

Achal Lohade: Correct, why I am asking Sir because in our calculation in the presentation what we have done is we have included the inventory as part of revenue, but typically the inventory is actually valued at cost, so you are actually inflating the base and the percentage look lower 21% effectively is 25% margin?

Sajjan Bhajanka: Usually we do not include the inventory as part of the finances because there is opening inventory and there is closing inventory unless there is significant difference it is not required to be included. If production is more and if I take all the figures, EBITDA only on sales then there will be huge disconnect. You can understand. That is why till the inventory level stabilize opening and closing sale we will have to calculate like this only and on ballpark figure I can say you the raw material cost is around 45% which is fixed, which is variable completely and then after the production cost of 20% that varies along with capacity utilization. GP will come somewhere between 35% and 42%.

Achal Lohade: Got it. Regarding, the margin part I will take it with Arun Ji separately. Thank you so much.

Moderator: Thank you. We have the next question from the line of Nitin Bhasin from Ambit Capital Private Limited. Please go ahead.

Nitin Bhasin: Couple of questions. One was you know the interest cost, so if you look at your interest cost was very low for the whole quarter, there may be some savings on the forex, as per the calculation and presentation you have roughly about Rs.650 Crores to Rs.700 Crores of debt. So if you could actually help us reconcile this interest cost, what was the gain in forex and what is the interest cost for MDF plant, if you could just take us through that?

Sajjan Bhajanka: Our average highest interest, it is 6.5% that is either commercial paper or promoter's contribution and second is export packing credit that is at 5% something and the major part of the borrowing is buyer's credit so which is requesting us around 2.2% to 5% and our average cost, the interest cost is below 4%.

Nitin Bhasin: Okay and hence for this particular quarter, the interest cost, should it be just quadrupled for next year is it like 4% if the currency now goes back to 67% and there will be a major impact?

Sajjan Bhajanka: Yes that is not covered because like dollar is not at all range, we are maintaining a policy of not hedging it, so in the last two, three years we are gaining, because reduction from 67 to 63 something or 64 of dollar you are benefited by that, but if it goes up then there would be some impact.

Nitin Bhasin: Of the 8.10 interest reported there is a 1.83 forex treated as borrowing cost, which you have addressed again. Is there anything over and above that or 8.1 is the gross interest cost?

Sajjan Bhajanka: You are talking of nine months?

Nitin Bhasin: Yes, December quarter, 8.1.

Arun Julasaria: In the December quarter, you would not find anything any forex losses, whenever we have gained, we cannot take it as a part of borrowing cost. Only loss we have to factor in borrowing cost then we can factor in borrowing cost.

Nitin Bhasin: Okay, in some channel check was suggesting that there is a lot of capacities of laminates which have come up from Yamuna Nagar of 0.8mm or something of that sort, so if you could explain is there some change in the laminate supply also in the market from Yamuna Nagar players or otherwise?

Keshav Bhajanka: The point is again demand in supply will always separate to 1 mm and that was predominantly prior to this. The capacity expansion in the past year has actually been far less then the past two preceding years, which for unorganized sector is slightly worrying but for us it is a good sign, because it means the unorganized are not as profitable now the GST has come in at 80% and 20% tax arbitrage has been reduced. Having said that it is the distinctly different segment. It is a segment where we are not aggressive, because the margin profiles are far more, yes but it is a segment that is growing in size, no doubt.

Nitin Bhasin: If you look at the capex that you are talking about for next year which is closer to about Rs.150 Crores to Rs.180 Crores between that I do not have the exact number in front of me roughly Rs.150 Crores, Rs.160 Crores. What are the reasons for it to go up because the new plants that Mr. Bhajanka was talking about in the beginning that new MDF plant may be thought about, so how should one now think over the next two years FY2019 and FY2020?

Is it another Rs.150 Crores to Rs.200 Crores is likely to come up in FY2020 also for the new MDF plant and new laminate capacity are otherwise?

Sajjan Bhajanka: In 2018-2019, the estimated capex has gone up because door project, which we supposed to complete this year, has been deferred to next year, so Rs.50 Crores has come up from this year project that is the major difference.

Nitin Bhasin: So beyond this no more capex is envisaged as of right now because Mr. Bhajanka was saying that looking for a plant in UP, we looking for plant in Assam and we might actually expand the current capacity also, any starting on that?

Sajjan Bhajanka: The figures we have given in slide are capex figures, lot of things can be planning which is there, so unless those are frozen, I am going to give next few years. Whatever our stocking, is not frozen, we are like two days back I visited Assam and that time government promised they will give us land also right over the areas for bamboo plant to something that the opportunity for future so as an when opportunity comes we will definitely avail it and we have to keep growing so that is there and wherever we invest and whenever we invest it will bring much more in return.

Nitin Bhasin: How should think off Sainik now. Volume decline what do you think of in the next two years for Sainik?

Keshav Bhajanka: Nitin, Sainik is pretty much still on lines. Now the Sainik is going to be thrust product once GST came into play. As far as wood panel industry is concerned, GST is still not coming to play. Yes, the rate cut from 28% to 18% has benefited as but as it was primarily outsourced material, the cost of material gone up as well. So I believe you aware of the dynamics of the industry whereas unorganized players who were leveraging us and through us were showing turnover before so as to outsourced material and to still provide material to the unorganized at market cheaper rates. Now since the dynamic has shifted their prices for us and for market in general have increased. Having said that the fact that GST has not been implemented completely means that the cost advantage that Sainik was supposed to face actually became cost deterrent it because that checkposts being removed direct 18% also went down to 0 in case of Sainik so when you competing again that segment with 18% headwind and 0 restrictions it becomes more difficult to grow in volumes as compared to what you are facing earlier. Now after the E-Way Bills comes into play and assuming that it does get implemented by June, which I think the government is taking up very seriously considering the fiscal deficit figures. I believe that Sainik should see huge thrust in the second half of this year. I am not saying second half of this financial year and I am saying second half of this calendar year. I think between July and December you will see a very strong movement in Sainik.

Nitin Bhasin: Okay until that time margins will remain under pressure closer to about 14% what you reported, the margins recovery is function of E-Way Bill or Sainik coming back?

Keshav Bhajanka: No there are two or three different dynamics here. We have not been able to take any price increases yet because of uncertainty in the market sooner rather than later will be taking price increase that immediately will be shot in the arm. As I told you in the conference call, I think of Q1 last year alongside that what is also going to happen is as volume grow we will get the benefit of economies of scale and once that happens you will see a better margin going forward.

Nitin Bhasin: Thanks a lot.

Moderator: Thank you. The next question is from the line of Pawandeep Singh from Infrastructure Leasing & Financial Services. Please go ahead.

Pawandeep Singh: Thank you for the opportunity. I think can you just guide on the MDF growth so far and how is being approached and appreciated in the market? Another question similar to that was MDF particleboard and cement fiber which one of your competition produces in terms of pricing, there are very similar as in the profile so how do we see differentiate this and how do we see a cannibalization because if any because Century and other plywood players have put up huge capacities in MDF so I just wanted to know this difference and the acceptability of MDF?

Sanjay Agarwal: First, I will take your second question. So you have spoken about the cement board thing. Cement board is nothing new in Indian market. You must remember something on Bison board. I think everybody knows about it. It has been there for last may be 15-20 years in India and whether actually we are also now importing and we are marketing across the country, very frankly we do not find much utility or much penetration of cement board. We are trying everywhere and be ourselves are now marketing for more than 20 months or may be 24 months in the markets. So there is not much headway this product has been able to make because it is not so user friendly because this is not only wood, this is wood mixed with cement so it becomes very stiff, but as far as MDF is concerned company like Century Plywood comes into in the month of October and by December it sells 60%-65% of its product in one-month so that product is being accepted very, very fast. So I do not think there is competition between cement boards. Yes, in certain uses cement board may prevail upon but it is not going to take a very big market share so there is no threat to MDF. MDF will grow. MDF is going to replace that cheaper plywood ultimately or it is finding new usage like handicraft. No plywood was getting into handicraft and MDF has really made inroads handicraft. It is replacing wood in a way. Now if you look at photo frames this is replacing photo frames in a big way, on the sides or on the backing of the photo frame is all MDF now. Like furniture making, they use very thin say 3mm or 2.1mm MDF on a plywood or on particleboard so that the surface becomes so smooth so the user will find it very smooth and they kind either paint it or they can varnish it very, very easily without wastage of paints or varnish actually. Between cement and MDF there is not much of any issue at all. The first question I think earlier replied the total production in north was hardly I think 1100 or 1200 cubic meters and 600 cubic meters was added by us and we are able to sell 10000 cubic meters in the month of December that itself says we have been received very well. The market is really expanding very well. We have taken some market from our competition, but otherwise market is expanding very, very well and it has accepted whether our chairman from last about 15 to 20 days he has been talking to us that we may now need to expand one more unit in two northeast or one more unit into south and all that has been already discussed internally.

Pawandeep Singh: One more question if I am allowed to, in one of the conferences you mentioned that if we see the MDF demand we can double the exiting MDF capacity with 50% of the original capex because the land cost and everything is taken care of but now wanted to understand the company is understanding in expanding to other geographies vis-à-vis getting into the Brownfield first and then the other geographies, what is understanding year we have?

Sajjan Bhajanka: In our existing plant, in Hoshiarpur Punjab so they are adding 400 cubic meters capacity of land would cost has only Rs.100 Crores. We will increase like capacity from Rs.600 Crores to Rs.1000 Crores by spending another Rs.100 Crores and like we are saying the cost margin is say Rs.325 Crores for MDF plant and that was very costly in north particularly in Hoshiarpur land cost was more than Rs.30 Crores so with that may be in Assam and other places land cost will be less and so may be effectively we can put the plant, but another advantage would be now say Northeast and Eastern India it is a market and now we have move the entire material from North India to Eastern India and to Northeast so it costs lot of money and if we have another plant and if we can sell that material in that locality say we have put up in plant in Assam and we can sell in Northeast and in Eastern India like Bengal, Bihar, Odisha, so that way it would have cost effective.

Keshav Bhajanka: Could I just add one thing to that see if you look at logistic cost of MDF between north and south it will be as high 11% to 12%. At less than 50% capacity utilization MDF you will look at EBITDA margins or 20% plus. So in order to take advantage of that logistic cost it makes much more sense to set up low growth plants closer to the source of raw material thereby you benefit from logistic cost and you make sure you do not put too much pressure on the raw material within the particular locality. The reason to expand capacity in Hoshiarpur is because we can do so with minimal cost expenditure; however, going forward MDF is going to become far more localized then what we are seeing today.

Pawandeep Singh: Okay. Fair enough. Thank you Sir. Thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Kritika Subramaniyam from India Infoline. Please go ahead.

Kritika Subramaniyam: Thanks for taking my question. Sir I had just three questions from my end. One is that action was not supposed to expand its capacity by 2019 and I guess was that about commission from time this quarter though we have a news on have they already started ramping up their expansion? Has it already taken place?

Sajjan Bhajanka: To my information it will take another four to five months to start the production and then to stabilize it may take another two months and more or less same with the Green. They will take another three months to come up with their south plant and like Action or Green or ourselves increasing our capacity so the immediate causality will be imports. The moment Greens plant start in south imports would reduce substantially and another redistribution of material then from north to south it will stop moving, south will be take care by itself, and Green, both way it is the same, would have stock, neither they would be able to sell in North India and neither Northern players would able to sell in South so gradually it will regionalized.

Kritika Subramaniyam: Right but Sir as of now how is our pricing versus Action on like-to-like basis?

Sajjan Bhajanka: We have not given any price hikes to anybody, we maintain same thing whatever the price line was there of Actions and Green we introduced at the same level.

Kritika Subramaniyam: Okay so we are pricing our like-to-like products at par with Greens as well as Action you are saying?

Sajjan Bhajanka: Yes may be 1% or 2% difference in one to two items may be there, but generally it is at par with them.

Kritika Subramaniyam: That is it from my side Sir. Thank you.

Sajjan Bhajanka: Thank you.

Moderator: Thank you. We have the last question from the line of Ashish from Anand Rathi Financial Services Limited. Please go ahead.

Ashish: My question was regarding your logistic business so I think from last several quarters we are seeing volume of around 20000. Do we have any view on this or we seeing any major change or it will remain like that?

Sajjan Bhajanka: In logistics basically we are handling containers so it will depend on the increase of the container traffic to Kolkata and it is increasing constantly but again new players are also entering like All Cargo and something All Carrier, they have started recently in Kolkata but it is very stable business and we have our clientele so more or less there is steady growth also and profitability is maintained because nobody is trying to cut the cost of this thing.

Ashish: Thank you. This was helpful.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sajjan Bhajanka: Thank you very much for sparing your valuable time and participating in this conference and you are always welcome Mr. Arun Julasaria if any data related questions or queries there any time you can call him or even near my colleagues are available for any clarification. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.