"Century Plyboards Q4 FY 2016 Post Results Analyst Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Century Plyboards Q4 FY2016 Post Results Analyst Conference Call hosted by Ambit Capital Private Limited. As a reminder all participants' line 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 thanks for joining in into the Q4 FY2016 Earnings Conference Call of Century Plyboards. We have with us here today the management with Mr. Sajjan Bhajanka, the Chairman, Mr. Keshav Bhajanka, the Executive Director and Mr. Arun Julasaria who is the CFO of the Company. I request the management to give us brief highlights and then we can open the floor for questions.

Sajjan Bhajanka: Good evening friends. I am Sajjan Bhajanka, Chairman of the company accompanied by Mr. Arun Julasaria and Keshav. So friends at the outset we have completed a very, very challenging year to even survive, to grow was very difficult, but fortunately we could improve on our profitability and little bit on our sales, but obviously it is not up to our expectation, but under these circumstances I think this is the best we could have achieved, but this year we have utilized the time in investing in future. As you must be knowing that our particle board plant is complete we are awaiting the electricity from Tamil Nadu electric supply so we are expecting any moment maybe it will be little bit delayed due to the election there, but hopefully we will get electricity connection and we have tested the plant with our other generators and the in house electricity available and this year again we have taken a giant leap, last year when I was discussing with you that time we were at planning stage for putting up one MDF plant at Punjab. So that time we are contemplating a capacity of 400 cubic meters but now we have upgraded it to 600 cubic meters. So now our plant, which is under erection, now is 600 cubic meters per day capacity and we have been asked by the Chief Minister of Punjab Mr. Badal to expedite our plant. So earlier we were planning to commission the plant somewhere in the middle of the next year, but now we have taken very ambitious target and seeing the market demand for MDF, market conditions for MDF, so now we are targeting to complete the plant and start production somewhere in January 2017. So we have advanced this thing by six months we have taken commitment form everybody all the fabricators, civil, civil contractors and all others so they all have assured us and our suppliers from China they have assured us because they are one of the largest MDF machinery manufacturers during last four, five years they have supplied almost 90% MDF plants in China and apart from that they have exported two plants. So that is there and then on the front of the raw material security our Myanmar plant it is fully commissioned it is helping us it is due to the Myanmar and Laos operations that we could reduce our raw material cost substantially and in spite of non-import of timber we could retain our veneer market and rather we have improved a bit on the veneer maybe we have improved by at around 20% on the veneer sale and Laos already we have commissioned three units, so three units are productive and the three units are in the erection mode so there are six major areas in Laos so we have identified all the areas and we are putting one unit each so all the units are some unit model where our capital investment is very less. We are tying up some with the local sawmill owners and this things but they are supplying us land, they are supplying us electricity connections and fares and we are providing machines and entire production will come to us and we fix a rate, which includes the timber and their contribution. So this is model this is a low cost and low risk model and out of these six units one unit we are putting up in the FDI mode we got permission from Laos government with all the tax exemptions and even with provisions from plywood factories there in Laos and recently we got a license for putting up one veneer cum plywood factory in Indonesia again this license also has come with all the exemptions. Like on the export tax exemption and income tax exemption. So I think we have reasonably secured our future in India for plywood as far as the raw material is concerned and so by and large this is the scenario. We are hopeful for a good year because this April sales has been better than the previous April because immediately after year closure the sale in the month of April generally is very subdued but this year if I not so. So the indications are better the housing sector the units have been started changing hands there are fuel for the housing units, offices and our role comes once the same takes place, during the construction we have no role when the housing is under construction stage that time only cement and steel they are used. So our role comes after that is handed over to the ultimate buyer, so fortunately things are improving and obviously GST has betrayed us this year so far but I think it is question of time and maybe during this financial year or by the first of April next year GST should be implemented. So friends I hand over temporarily to Arun Julasaria. He will give you opening remarks and then maybe Keshav will say few words and then we shall welcome your questions.

Arun Julasaria: Good afternoon all participants'. This year we have tried to circulate all the number related information to you in advance I hope you have received, if still there is any queries relating to numbers is most welcome, but precisely I would like to say you basic figures. Our yearly net revenue have increased by 6% from 1564 Crores to 1658 Crores, EBITDA has increased from 268 Crores to 289 Crores giving 17% growth. Profit before tax has increased from 180 Crores to 198 Crores booking a growth of 10% and profit after tax has increased from 151

Crores to 168 Crores about 11% growth. Any number specific query can be addressed to me and I am giving call to Mr. Keshav Bhajanka who will be sharing his views.

Keshav Bhajanka: Good afternoon this is Keshav Bhajanka here. The last year was slightly difficult but I believe that we have negated or we started over real quite well. Going forward the outlook looks positive and we have invested substantially into the future during the course of the current year. Any questions that you may have you can ask in the course.

Arun Julasaria: Thank you friends now your questions are welcome.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihal Shah from ICICI Securities. Please go ahead.

Nihal Shah: Sir a couple of things on the plywood division first some data points, sir can you give us broad breakup in volumes and value between scenic and non-scenic products.

Arun Julasaria: Nihal the CP report from which we are getting these data that somehow corrupted we are trying to correct it, we will give you that data in due course, we have given overall data only scenic, non-scenic bifurcation spending that we will give in due course.

Nihal Shah: Sir another question is we have seen some destruction in margins in plywood in particular so can you throw some light on why the margins were so substantially lower in the quarter.

Keshav Bhajanka: Nihal see there are two primary reasons behind the same, the first thing that during the course of the year we are having provision for certain discounts whether the volume growth wasn’t there in the course of last quarter there is a 16% quarter-on-quarter growth and there was a 10% Q4 versus Q4 growth which was not anticipated, in line with the same the discount payout was slightly higher than the previous year, other than this another reason was that during the course of the year we have invested substantially in terms of our employee cost and in terms of advertisement and publicity cost, both of which are investment in to future as you know we have been pursuing the MDF product for quite some time and cost later at project in terms of top management et cetera, et cetera, but it is already put in place for the plant that should become operational during the course of the current year and along with the same we have continued on aggressive advertising campaign for laminate and for scenic which I believes is it will give us due diligence over the course of the coming year and the coming couple of years and so on, fairly we have invested into the future and coupled with slightly higher discounts which are unprovisioned this is led to a lower EBITDA during Q4 then what we could have expected.

Nihal Shah: Sure and what is the sustainable margins you expect for the plywood division going forward for next two, three years.

Arun Julasaria: 17% EBTIDA is set to be sustainable.

Nihal Shah: And sir on the commercial veneer side we have seen sudden drop in realization so can you throw some light on where are the realizations headed going forward, and also if you can throw some light on the margins in the commercial veneer segment.

Sajjan Bhajanka: The earlier year mainly we were producing commercial veneer in our unit and that time we had ample capacity and we are peeling for our own requirement and then we were selling in the market so this year like the Keruing and Gurjan which it is the prime species which is used for the fresh and that is mainly what we market it is the fresh veneer. So like earlier years we were manufacturing in India using for ourselves and marketing it and whatever we were selling that use to be mix grade but this year our mostly veneer is coming from outside from Myanmar and from Laos so first these are comes to our factories there we do the segregation we sort it out and in century ply we use the prime grid only so first we take out the prime grid that we use for our own purpose and then the B grade and C grade that only in market. So although that the total volume price wise increase this will be solved somewhere 162 Crores in comparison to last year's 140 something in veneer segment but the volume wise last year the sale figure was 137 for commercial veneer this year it is 163 Crores so like total value wise we have increased but for CBM maybe it is maybe either same or almost equal.

Nihal Shah: No sir if you look at commercial veneer realizations even for the last quarter they were down substantially by 13% so is the trend.

Arun Julasaria: We were talking of realization of commercial veneer come by 13% YoY.

Nihal Shah: Even sequentially sir it was down 11%.

Arun Julasaria: Yes, this was down because the end of the year the veneer which comes that comes from the old timber so quality of veneer comes down.

Sajjan Bhajanka: Yes, that is one thing and again in India whatever is we were filling the prime timber was not coming so here we were importing from Papua New Guinea, Solomon Island, Beech from Europe so these all are almost 50% costing timber. Like Keruing the price is around 600 these timbers which were importing at $250, $300. So similarly the value for this we also less, so that why one thing and whatever we imported out of that prime veneer we have kept for our own production and the secondary grades only we have marketed.

Nihal Shah: And sir my last question is on the tax rate this quarter we have seen a substantial jump in tax rate from 19% to 26% what is the kind of sustainable tax rate for next couple of years we are looking at.

Arun Julasaria: That we calculate tax quarter-on-quarter on a doc basis, but the yearend we have to make out all the adjustments so generally that is disconnect at last quarter but PBT, PAT difference is likely to remain between 15% to 16%.

Nihal Shah: For next two years.

Arun Julasaria: Next two years, and once my MDF revenue comes in total then the rate will go up to 18%, 20%.

Nihal Shah: So probably we will have a higher tax rate in…

Arun Julasaria: Of course my revenue mix will change in my total revenue more revenue will be from taxable entity.

Keshav Bhajanka: Because we have the unit in North East that is fully exempted from tax and then we have our CFS which is again exempted so these are making up to reducing our tax burden then it is like our payout is within the MAT payment and then when it is more than that duty calculation then we have to make provision for the MAT refund. So effective duty this year why also around 15%, and the next year it will remain more or less same and after that MDF will come and here particle board will come so these both the units are not exempted as per the income tax is concerned, like MDF there we shall have exemption from the GST or VAT whatever is at that time and then we have some electricity duty exemptions and there are some other exemptions in Punjab and total exemptions is equal to 100% of investment in plant and machinery so that is the upper limit upper chem. So that like we shall get benefit in the income but it will be fully taxable, but the ratio of exempted income will comparatively reduced in future years.

Nihal Shah: And sir last is what the debt on books as on FY16 including these current maturities?

Keshav Bhajanka: You want to know the debt figure.

Nihal Shah: Yes, total debt figure including short-term maturities, which get accounted for in the liabilities.

Sajjan Bhajanka: Total debt figure 455 Crores both long-term and short-term out of this long-term is 64 Crores and short-term is 391 Crores any one breakup you want. This short-term is like buyers credit that is to see cash credit accounts and more or less this thing. Any further breakup you want…

Nihal Shah: No, I think that is fine. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Kamlesh Kotak from AMSEC. Please go ahead.

Kamlesh Kotak: Sir just wanted to check about the Capex as you said you are raising the capacity from MDF plant so will there be any increase in the capital expense for the sales.

Sajjan Bhajanka: Yes, now that for MDF and there is some plywood capacity also there so along with that is around 400 Crores, MDF is 380 Crores budgeted cost and then there may be some around 64 Crores for plywood and veneer.

Kamlesh Kotak: 380 plus 60 Crores that would be around 450 odd Crores is the total Capex.

Sajjan Bhajanka: Yes, and but this is the ultimate including the contingency and well and out of which the stage one would be around 300 Crores, Kamlesh Ji, we are having Capex on account of different credits, today a project in total will cost roughly 80 Crores out of the 38 Crores we have already spend and balance we will be spending maximum in FY2016, 2017 and some payments which will left out all the projects will be completed in FY2017 but some payments which will be left out will be made in FY2018 I can say 38 plus 292 plus 50 total 380 and then we have planned a plywood unit at Punjab which we will be implementing in stages that will total cost at 64 Crores in fact we were started implementation of which because we have got license for plywood to get in Punjab and unless we show effective steps license may left so 20 Crores we will be spending in FY17 and balance we will be spending as per the demand of the plywood and then for particle board plant which is almost complete that was support to cost continue about 59 Crores 51 Crores are already spend and this plant is ready for operation balance 8 Crores payments are still to be made so those will be made in current year.

Kamlesh Kotak: Sir my question was pertaining to particleboard when the commercial production of the same will start and the revenue will start generate from that new plant.

Sajjan Bhajanka: The plant is fully ready and only electricity connection could not be done in time by Tamil Nadu electricity board so as per our information's due to the elections people are little diverted so within a week or so we are expecting it and hopefully it will start production from the first week of June.

Kamlesh Kotak: And as regards laminates so going forward what kind of a growth you see and how much capacity there and we can scale up to from the current infrastructure.

Keshav Bhajanka: Hi, in laminates over the course of the past couple of years we maintained 20% plus growth even over the course of the past year we have earn 23% growth well there has been a slight degrowth in free laminated particle boards of MDF this will be addressing this year as far as standalone laminates are concerned we are again looking at a 20% plus growth in the current financial year.

Kamlesh Kotak: And how much you will see from plywood both scenic and non-scenic.

Keshav Bhajanka: In plywood we are looking at double digit growth figures as we have done in the past five years in the past five years we have about a 15% CAGR and I think we are looking to maintain the same.

Kamlesh Kotak: And would that be mainly driven by scenic or it would be all across the brands.

Keshav Bhajanka: The contribution of scenic could be slightly higher, however the other products like newish product groups such as Starke and Zyrkon that we have recently introduced and other products that shall contribute towards the growth.

Kamlesh Kotak: Thank you very much.

Moderator: Thank you. Our next question is from the line of Vishal Gajwani from Birla Sunlife. Please go head.

Vishal Gajwani: Sir wanted to understand what kind of capacity utilization you will achieve in MDF in FY2017 and FY2018.

Sajjan Bhajanka: Like we have to be little cautious but you know there is nothing like that it is almost committed plant and once we start producing after that generally there are no technical hiccups only thing is like market demand and supply so at the moment there is ample demand in the market and you might have this today only they are hedging some antidumping duty imposed some more countries for the import of MDF so hopefully import will further reduce and gradually the entire domestic demand will be met by the domestic players, so I think by the time where there would be ample demand and with our brand awareness and with an equity we shall be able to corner a big share of the market.

Vishal Gajwani: Any concrete plans in terms of utilization for FY17 at the movement.

Sajjan Bhajanka: FY2017-2018 sorry that is 2016-2017 know.

Vishal Gajwani: Right.

Sajjan Bhajanka: It is 2018-2017 seems to look this year we are not keeping any provision and 2017-2018 is with the minimum 70% capacity utilizations would be there.

Vishal Gajwani: It is 2017-2018.

Sajjan Bhajanka: 2017-2018 a 70% capacity utilizations would be there.

Vishal Gajwani: And in 2016-2017.

Sajjan Bhajanka: 2016-2017 only we shall be start our plant somewhere end December or early January or January so we shall have hardly have two months so that we are not making much provision in this year we are leaving it against the contingency issue.

Vishal Gajwani: And 2017-2018 where you will be operating it for the first full year you expect it to be 70% utilization.

Sajjan Bhajanka: Yes, 70% capacity utilization we are assuming and we are also planning for some value addition like pre-laminating and other things so simultaneously that will add value to our produce.

Vishal Gajwani: Sir this antidumping duty from Vietnam and Indonesia is this propose or has this already been implemented.

Sajjan Bhajanka: It is announced today Julasaria is informing that it is finance ministry approval but our past experience has that as soon as it is introduced I think within very short time it is implemented also.

Vishal Gajwani: And sir finally wanted to understand this Capex breakup that you have given in your presentation so I think 380 Corers of Capex will be done in this financial year. So how will this be funded between internal accruals and debt?

Sajjan Bhajanka: In fact for this MDF plant we have regime debt 290 Crores worth term loan we are regime.

Vishal Gajwani: But I think your cash flow internal accruals would also be very healthy in FY17 so do you need that much of debt.

Sajjan Bhajanka: I mean this year whole term loan will be repaid also.

Vishal Gajwani: And so at least you have debt on a one-year basis by March 31, 2017 what kind of debt accretion will have an increase in debt.

Sajjan Bhajanka: In fact taking the base here as current financial – FY2016 in the current financial year near about 290 Crores will be added.

Vishal Gajwani: But you will also be repaying some of the past debt right.

Sajjan Bhajanka: Yes.

Vishal Gajwani: So net accretion will be how much.

Sajjan Bhajanka: Around 48 Crores is paying this year that is around 250 Crores.

Vishal Gajwani: That is all from my side thanks a lot.

Moderator: Thank you. We have a next question from the line of Prateek Shah from Antique Stock Broking. Please go ahead.

Prateek Shah: Hi, my question is for Keshav. Keshav I just wanted to understand how do you see 20% value addition.

Keshav Bhajanka: You have to be little louder we are not getting you clearly.

Prateek Shah: I just wanted to understand how do you get around 20% plus growth in the laminate division not excluding pre-lamination considering your operating at full capacity utilization if I am not wrong and so I just wanted some clarity.

Keshav Bhajanka: See during the course of the current year we have taken a number of steps we have moved from six day working to seven day working which is and we stuck about three by about 16% 17% along with this we have improved our efficiency which is led to again automatically increase over 4% to 5% and we have taken certain other steps such as improving the manufacturing processing itself by virtue of doing all of these I think we have added about 25% capacity without any substantial capital expenditure and that should be sufficient for us for the course of the current financial year.

Prateek Shah: And what about FY18 per se.

Keshav Bhajanka: For FY18 we have growth again in a similar manner we will have to plan for additional capacity.

Prateek Shah: And that would be where.

Keshav Bhajanka: As per now we are planning for capacity in Kolkata itself.

Prateek Shah: Great thanks.

Moderator: Thank you. Our next question is from the line of Nikhil Upadhyay from Securities Investment. Please go ahead.

Nikhil Upadhyay: Sir my question is basically on the facilities, which we have put in Myanmar and Vietnam and Indonesia and Laos. So how do we source the timber there because what I could understand is that basically the Myanmar enterprise agency or the government agencies defined the quota and then the people have to bid for those quota and get the material so if you can just highlight on those sector so my primary question just is this quota how is this quota defined secondly how do we get the amount of material so is it a tender process and thirdly as over the last two years since the band has the quota been increasing or it has been remain constant.

Sajjan Bhajanka: First I take up Myanmar so Myanmar they have a different system. They have created one empty Myanmar timber enterprise this is the nodal agency which controls the entire forest operation in Myanmar so basically they give permits to the local contractors and local companies to operate in timber so those companies they operate and the part of the total ails which given to those companies as free sale they can sell to anybody get the negotiated value and around 70% comes to MTE which they organize regular auctions and they sell by auction in they are like MTE it could comes to the MTE timber yard in Yangon so earlier if I 100% coming to MTE Yangon timber yard but after then on the timber they have opened other yards also still like the factories which is in Northern Myanmar so they have created some more yard, so to this factory they sell from there that is for Myanmar and again this is developing country so the roads bridges other things some other products are coming up and for that they give like they allow to clear selling allow clear selling in those areas where a developmental or constructional activities are coming up and those clear selling's are free like anybody goes the contract they are permitted to sell it in the open market and now I am coming to Laos. So Laos again there is permit system so government of Laos they allow permit and there basically like federal government has limited power and like quite issues and other things are regulated by their state government and there the call is governance so there are six, seven states in Laos which are timber reach so those are giving regular permit and again a lot of higher projects and a lot of road projects are coming up in Laos so there also there some clear selling is there and that timber also comes to the market and they have band the export of timber they have band the export of stone timber also like in Myanmar stone timber is not band. So they can like other than row timber all other timber products could be exported out in Myanmar but in Laos they have put the total band only plywood or veneer is allowed and all line furniture is allowed the timber stone timber everything get band so there is availability of timber in the country itself.

Nikhil Upadhyay: Sir my question is to basically if we look at it when the government agency is defining the permits and all and so when we our partners are buying the raw timber from the agencies and basically on an auction process so is the amount of timber which is available in the market is it limited or is it like that is also growing.

Sajjan Bhajanka: It depends on area-to-area like where our areas where there is ample timber and earlier lot of timber was exported from those areas after the band there is huge accumulation of timber but unfortunately we cannot take that timber because we need phase timber otherwise we do not get good yield but there is a problem in Laos now there is a lot of inventory of the whole timber is there so that is one thing and the phase timber is coming up and like all the other units we have tried or with one of the big semilunar and with them and with their license so they are establish the project in that country and only one unit which we are putting up there we have got a direct license under FDI route and there government is allotting its quota also for our own operation so we shall cut timber by the local people and grab a material to our unit and apart from that if it is not sufficient we may buy from the local contractor self.

Nikhil Upadhyay: Secondly sir if we look at buying the raw timber in these areas is sir like in India we have the plantation timber but the quality is interior so do we have similar plantation timber opportunities in these areas and is the quality of that timber equivalent to the natural occurring timber.

Sajjan Bhajanka: Myanmar and Laos so far plantation activities are not much although the particularly Myanmar is increasing plantation like when we are putting up the unit so we were ask to go for plantation to compensate the timber we consume there and we have ask them to allot us to lend but so far they could not allow any land to us so we could not be start plantation activities similarly existing plantation activities are almost non-assistant in Myanmar, there are in certain areas very limited eucalyptus plantation but it is very, very negligible and like in Laos earlier when there was no industrialization they have invited some companies to do plantation in Laos. So Birla was one of the company's which ventured in plantation from India and they created a joint venture there that is Birla Laos so and they were like allotted 50000 hectares of land but unfortunately they delayed in utilizing the land and taking the land and doing the plantation so now to my information around 20000 hectares they have already planted but after that land was not available, the local people they can aware of that government took a policy that anybody being taking birth in Laos would be allotted 5 hectares of land so now no more land is available and similarly one more compromiser I think maybe from Japan they has some plantation so total plantation in Laos may be it is come find to 30000 hectares, but that is very recent allotment and timber is not ready for utilization that is it will take few more years then it could be commercially exploited.

Nikhil Upadhyay: Finally if we try to understand that over the next three to five years there are two things which are happening one is the plantation timber activity is limited secondly the government is also regulating the amount of free flow of raw timber so do you see that the pricing of phase veneer or which we sorry, it not phase veneer but the pricing of timber which we are buying should see an upward trend from here on a continuous basis due to the capacity of raw material.

Sajjan Bhajanka: Chances are there as you are noticing plus so many years the price of timber is continuously raising and so the cost of veneer and the plywood so usually last so many years we have been calculating that our group has been growing at the rate of 25% so 15% was provision growth and 10% usually was the value growth so this almost the constant rent at which prices are raising 10% every year.

Nikhil Upadhyay: And sir just extend in this a bit forward so basically if you look at it the timber which is available in Myanmar or Laos or North East of India is generally the best quality timber which is the premium timber which we are using so as an expansion does it mean that the pricing differential between say our scenic brand and the premium brand which we would be selling will continue to raise for us as well or for the whole of the market as such, can we see…

Sajjan Bhajanka: Scenic there is some component for plantation timber available in India like Eucalyptus and popular and timber and Melia Dubia in south so these are we are using and in Century mostly it is like hardwood imported from outside so obviously the cost of Century is more and this difference will continue.

Nikhil Upadhyay: And should it widen further.

Sajjan Bhajanka: It depends like at the movement there is plenty of plantation timber available in the country and there are no since it take us so the price of plantation timber in last three four years have come down to almost 40% so this year there was not much increase in the veneer plywood this is one of the reason because we have the local timber was available cheaper but imported veneer was little costlier, it was but by and large there was no price pressure in this year.

Nikhil Upadhyay: And sir my second question in the laminate basically if we look at the domestic with is almost 3500, 4000 Crores market so how do you see this market growing over a three to five years period can there be a significant substitution like which we are seeing in MDF that from low plywood people are moving to MDF do you see that the laminates can see some type of a structural measures which can bring the growth towards 10% or a 12% in the domestic market. Secondly on the export market which seen a large amount of traction which we have grown so which are the countries where we have grown and secondly what further step we are looking at to further penetrate in the export market.

Sajjan Bhajanka: I will basically answer in two parts firstly with regards to domestic market you see in the recent past we have seen a consolidation the top brands have been able to increase the volumes and the market share whereas the smaller players have been contracting I believe this is downturn fact that branding is become more and more important as we are going forward and I am pretty sure this trend is likely to continue into the near future I am getting to exports see we are primarily exporting or we are very successfully exporting in the South East Asia and to a large extent into America and we are seeing a very, very good growth trend in both these places and going forward well we can see we have already witnessing a couple of developments which are long-term developments happening in South East Asia and I am sure these are going to bear fruit sooner rather than later.

Nikhil Upadhyay: Can you just delve a bit more into what kind of development which makes you so positive in the…

Keshav Bhajanka: You see basically Century as a group has policy that we are not going to invest into sales and marketing offices or into sales and marketing resources into countries other than India whereas this does have a limitation the obvious advantage is our margins in terms of exports are better than any of the rest and I am having said that by virtue of this module we develop from partners in countries and these partners both together with us they stock materials, they sell the materials and there is lot of countries that is joint branding and some countries it is their branding and over a period of time we notice a sales growth and this is a very study growth that takes place some of our customers have been with us since in section of century laminates in exempt. Going forward we have identified some track customer, which are work in progress and using the course of the current year those customers will actually fructified. So volume should see as a branch lock side.

Nikhil Upadhyay: Last question sir you mentioned that we have in the export laminates we are selling through own brand as well as the sourcing partner also so if you can just give a rough breakup in exports were could be our own branch sales versus the sourcing type of a exports.

Sajjan Bhajanka: 20% own brand 80% as a sourcing partner. Just one clarification see when you said sourcing partner this is not basically job work and even as a sourcing partner our roles and responsibility assignment so the design selection and the finalization of catalogs et cetera, et cetera the nature of the materials nature of the finish in the texture is all decided by Century. So technically it is more as a design cum sourcing partner.

Nikhil Upadhyay: And we would be like a co-branding partner then.

Sajjan Bhajanka: No the co-branding as I told you was only in 20%, 80% it is in the brand name of the party purchasing from us.

Nikhil Upadhyay: But the SKUs would be developed by us.

Sajjan Bhajanka: SKUs that were deferred ownership would be there, they would be investing in the resources but development would be done together jointly with Century Laminates.

Sajjan Bhajanka: Thanks a lot sir.

Moderator: Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Most of my questions have been answered, I just wanted to get your thoughts more on the growth improvement that we have seen in Q4 what has driven this are you really seeing on the ground some improvement or is there any particular market where you have seen growth improving and also if you could sorry if I miss this in terms of capacity utilization where are we operating across segments now.

Keshav Bhajanka: Relating your question a few parts firstly when you are talking about Q4, the growth in Q4 is something that traditionally takes place in our industry Q4 is normally strongest quarter having said that the reason why Q4 2016 was quite good was because there are lot of initiatives that we are taking during the course of the year to lead to higher volume generations but still we have change the process in which we are selling materials so we have initiate a new process called ODJ which is a practice that has been takes up and that changes the way in which we operate with the market by doing this I think we have been able to generate the financial amount of higher sales secondly we have invested a lot into branding during the course of the year which is pay dividend and I believe we are going to continue to invest strongly in branding during the course of the current year as well and this should lead towards trend of higher growth during the course of the year the market in itself has definitely improved the times of a recovery and there was sort of cash flow crunch in the retail segment that was taking place I think that is easing up now so that is definitely benefited us.

Gunjan Prithyani: Sir in terms of you mentioned that this process has been changed could you throw some more light on how are we looking at hit now and what you are trying to say is that we have probably gained market share versus competition in this quarter. I know a quarter is a very short duration to look at but in general some sense has it been we have outperformed the competition significantly in this specific quarter?

Keshav Bhajanka: Definitely you see the process change that are taking place is retailers earlier the relation with retailer was very one sided whereas our role is basically are servicing partner. During the course of the current quarter and the quarter before that we are trying to change that as so partner who is generates leads for them and helps them into convert those lease as well and I think this has given us a slight competitive advantage over the competition. Having said that, yes I definitely believe that this has led to us gaining market share and I believe that if this trend continues we should be able to gain market share further.

Gunjan Prithyani: Sir in terms of cash flow crunch, we should see working capital position improving over that 17 given the channel you are saying the cash flow crunch is far reduced versus what it was earlier?

Keshav Bhajanka: Definitely.

Gunjan Prithyani: In terms of capacity utilization where are we operating now across segments?

Arun Julasaria: In plywood we are operating at 85% and in laminate we are operating at 89%.

Gunjan Prithyani: There is no capacity expansion planned in these two segments, the only capex that we are doing right now is in the MDF segment?

Arun Julasaria: MDF and along with that some plywood also in Punjab. We have licensed therefore eight hot press licenses but that will depend on the market demand, so because for us like commissioning plywood unit does not take any time within three months when we decide we can be start-producing plywood. So in Punjab we have eight of hot press licenses which is almost another 50% capacity of our combined capacity with the whole company but we still be doing it in phases seeing the market and that would be have further segment which may be cheaper than the present two segments, Century PF and Century and then get maybe the third segment which will be totally based on the plantation timber and would be and that will come more or less considing with GSD. So with that also may be the trend.

Gunjan Prithyani: Sir have we taken a decision that we are going to and because the 380 Crores is largely towards MDF or there is some incremental capex towards plywood as well?

Arun Julasaria: Plywood it does not cost much of money and Keshav he wants to speak something on this.

Keshav Bhajanka: You see we are going to take up a plywood capacity in Punjab in two phases. In the first phase they are going to be investing about 20 Crores into Punjab which we are definitely going for. The reason for the same as the Chairman is trying to explain is that today the cost of manufacturing plywood is perhaps the cheapest in Punjab the same logic with MDF the cost of plantation timber is lost in Punjab and by doing this I am sure that will be able to increase our margin at the same time we will be able to remain more competitive in the market.

Gunjan Prithyani: What would be the outsourcing component in plywood now?

Arun Julasaria: Near about 20% I can say. Here there is one distinction is there like century brand there we do not do any outsourcing.

Gunjan Prithyani: This is primarily for Sainik?

Arun Julasaria: As a matter of policy, it hedge to the manufacturer in our own laminates. So we have six units in India, they are only within they are all century product and even we have a spare capacity so even the other segments also we have produce ourselves but in certain region where we have less capacity we outsource a bit under quality and technical control from our people so that is near about 20% by volume up to the maximum and daily wise that may be 16%, 17%.

Gunjan Prithyani: Why I am asking this question is that because you mentioned that the cost of producing this is far cheaper in Punjab and given that we already a capex planned there and we can actually set up a plywood capacity why cannot we look at this doing everything in house because that will give us more margin?

Arun Julasaria: That is the idea. The movement we are there and gradually we shall increase capacity there and replace it by outsourcing would be replaced and now we have already started doing it in our other factories wherever even our manufacturing cost is a little higher we are going for our own manufacturing instead of outsourcing we have reduced outsourcing. We have reduced by 50% already.

Gunjan Prithyani: In terms of capacity utilization, the maximum we can stretch in both the segments is close to about 110%, 115%?

Arun Julasaria: That is there we can stretch but increasing capacity in plywood is very easy and even the lots of units are available. We started with one unit. Now we have six units and the moment we feel like there is more demand and we can sell more so we can buy unit here and there depending on our requirement anytime.

Gunjan Prithyani: Laminate takes a little longer to commence production so is there something that you would want to commit to now in the laminate segment because growth there has been reasonably good for us?

Arun Julasaria: Laminate, we have observed two things the growth wise is very good but there was like our peers they had some sort of competition and the competition wise from themselves only because they have been increasing their capacity so much that at times they are not able to utilize the capacity and at times they are under pressure to like sell more and in that they are not able to improve realizations because I am saying the margins are declining in certain capacity so here in Century we have taken the conscious decision that we shall not compete with ourselves so the first when the demand is in the market we will be following the demand. We will not be producing and then taking the demand that consciously we are avoiding. We do not want to be in separate supply position.

Gunjan Prithyani: Without adding I think we can still get to about 110%.

Arun Julasaria: Not very long for the coming years maybe we will continue up to 20%, 25% growth by converting from six days to seven days and optimizing certain process parameters but given that we need to add capacity.

Gunjan Prithyani: Lastly Sir any guidance on how should we look at the growth next year and margins of course you did commit by 17% that 17% is overall basis or was it just for plywood segment?

Arun Julasaria: It is overall basis. It is very difficult to calculate and formulate this policy because this market is dynamic and things in different segments keep on changing so with the overall 17% should be maintained and like the growth so far from 1997 till last year we have almost maintained 25% CAGR so that is the growth on the total listing and margin we have improved lately and even 10% PAT this is now our minimum benchmark so we should never go down below 10% in the after tax profit.

Gunjan Prithyani: Thank you so much.

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

Achint Bhagat: Hi sir just a few questions from my end number one was in terms of the MDF channel so will you be selling MDF on the same channel and if not have we started thinking about building the channel in MDF.

Sajjan Bhajanka: MDF marketing actually we are hiring the team now, it will be a separate team and because the plant is located in North the advantage of freight is there if we sell in the North so most of the production we would try to sell in North or may be to adjoining areas of central India of course some material, the market cannot be captured 100%, some material may go west or some material may go to east or south also but we will try that about 70%, 75%, 80% is sold in the north and central region.

Achint Bhagat: But sir will it be sold in your plyboard channel only and at the same dealer shop as where the plyboard is sold or will you have a different shops for this.

Sajjan Bhajanka: Usually MDF dealers are little different but they are also plywood dealers they may not be dealing in our products and there are dealers who deal in century plywood and they want to deal they want to start in MDF or they are already dealing in MDF.

Achint Bhagat: Okay, because where I was coming from if MDF market is going to grow as per your expectation is there a chance that MDF will start cannibalizing your sales of plyboard but itself?

Sajjan Bhajanka: MDF is a little lesser quality product than plywood. The Century Plywood is mostly consumed in high level residences, replacing plywood of course but it is replacing the cheaper grade plywood which is manufactured locally and market locally like in North India 6x3 plywood was used for bed, practically that market has been completely now taken over by MDF but that market was not belonging to Century Plywood. Century Ply belongs to people who actually do not want any problem and they really think that if they invest 10% extra it really does not matter to them so that is why they buy Century Ply, that market cannot be replaced by MDF because MDF is not quality wise good.

Achint Bhagat: Okay. And what is your sense what will be the proportion between retail sales and institutional sales because I think its more of a B2B product isn't it?

Sajjan Bhajanka: You see if you look at practical board, practical board and prelam is more B2B but MDF has now really gone into retail market lot of handicraft, lot of take photo frames I am just trying to give you an idea, now if you remember photo frames you will see just on the back of the photo frame or the photo frame itself is made of MDF actually. Similarly many handicrafts are made of MDF all these interior designers are now using MDF for the ceiling they are using as dividers for chambers, now started getting in a big way into retail and see earlier nobody worked with the market or with the users nobody trained the maistry, carpenter how to use MDF, now before there will be competition everybody will start teaching them so it will catch the market much faster and this product is actually if you look at a 12mm seat, the 12 mm seat across is 12 mm look at a local plywood the plywood may be from 11mm to 14mm, so it's a much better product aesthetic wise actually.

Achint Bhagat: Sir a second question was on face veneer how much is the amount of money that is spent both in Myanmar and Laos combined on setting up this face veneer capacity now I think because you are largely done with the expansion there how much is the capital employed in the face veneer business?

Arun Julasaria: In Laos we have invested around 40 Crores that is in different form in the form of share capital also and we have exported machinery out of India payment for which is to come through our subsidiary so what we are planning that money will be earned there and money will come back, so ultimately we are about 5 Crore each share capital in my Singapore subsidiary and Laos subsidiary that will remain.

Achint Bhagat: But you have invested 40 Crores till date right?

Arun Julasaria: That is in the form of money receivable and the supply of machineries, we have sent machineries worth 28 Crore here so money is slowly coming as and when earnings is booked there money is coming back.

Achint Bhagat: Okay and in the Myanmar Sir if you could help me please?

Arun Julasaria: Like in Myanmar figure he is giving but for time being we are have kept the expansion on form, because lots of units are started in Myanmar now there are almost 50-60 units in Myanmar little more than 90 peelings, just we are like undertaking expansion more in Laos and next unit would be in Indonesia.

Achint Bhagat: Okay and that how much money are you planning to spend on that?

Arun Julasaria: Again as I explained you this veneering itself is not a very costly provision it depends, in Indonesia also we have tied up with one of the largest timber concessionaire in Indonesia so they will give us material at a certain rate which is much lower than the other countries and they will provide us land even in the ready state with electrical connection so our investment only would confine to machineries we sell peelers, dyers and chopping machines and so that way it will not be very capital intensive. That is also our idea there.

Achint Bhagat: That is also Gurjan only that is acceptable in India.

Arun Julasaria: Myanmar we have invested 37 Crore still 31st March 2016.

Sajjan Bhajanka: And apart from that there is some working capital like we opened LCs we give them the export material against that so that sort of sometimes we remit advance to them against material then within a week or 10 days material comes that type of facilitation we are doing to our own units.

Achint Bhagat: Right. And so of this 445 Crores of sales that steps or phase what would be the EBTIDA generated from this if I can get this last one number?

Arun Julasaria: We cannot calculate separately because part of material we are consuming.

Achint Bhagat: Okay this includes inter unit sales; this is not only external sales?

Arun Julasaria: This is an integrated operation.

Achint Bhagat: Okay and what is the market share that you have in the commercial veneer market of India right now given that capacities from Myanmar have increased so significantly what is your market share in India in face veneer sales right now?

Arun Julasaria: This is some sort of the emerging year, this is the first year so lot of different like trials are being done so lately we have started both the things we are bringing material from say Laos to our Calcutta unit, Chennai unit and Kandla unit they are segregating there and selling and keeping for our requirement which we even send from Kandla to Karnal to Rourkee similarly and lately from certain units we have started selling directly also, so through our subsidiaries Century Singapore they open LCO on that unit and we dispatch material direct to them, so this is another one we started more of selling of veneer, so together direct sales from our units and through our units here together earlier usually we were calculating 30% share of veneer market which is very small market. Face veneer market because the general thickness of the plywood is around 12 mm average thickness and face component is only 0.6 mm so this is say almost 5% only and the yield is we are selling that is the low grade B grade C grade **(inaudible) 1.8.35** C grade veneer costs almost 30% of A grade veneer, B grade veneer costs almost 50% of the A grade veneer, so that way daily it is not much, this year our direct sales, indirect sales together may be around 200 Crores.

Achint Bhagat: Okay thank you very much Sir. My questions are done.

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

Basudev Banerjee: Thanks for taking my question. I just wanted to know whether you have already placed orders for the Chinese machinery for the MDF plant?

Management: Yes, we have placed order for all the MDF machineries, even we have appointed contractors also and we have appointed multiple contractors, two contractors for civil jobs and three contractors for civil jobs and for piling job different contractors, for road different contractors, for boundary wall different contractors and for the fabrication still fabrication again we have appointed two contractors to expedite the work and we have paid the entire advance for all the machines we have either opened the LC or in the final process of opening LC for remaining machines for the schedule of delivery.

Basudev Banerjee: Sir how much time it will take for the erection for the machinery per se?

Arun Julasaria: Our target is first board should be taken out in the month of December this December.

Basudev Banerjee: That is great and this duty is also coming in by that time so benefit only. Sir can you just on a qualitative basis give some differentiation between the European machinery and Chinese machinery any advantages or disadvantages from the machinery, which you are sourcing and compared to European machinery?

Arun Julasaria: Keshav, multiple times we kept the European unit as well as Chinese and machines in operation so he will explain to you.

Keshav Bhajanka: I am sorry I am going to take two minutes of your time to answer this. You see we have got a process of analyzing the MDF and MDF plant and demand to MDF very early on so since the year 2006 we have been exploring MDF and all the possibilities to manufacture MDF. Initially we had identified two European suppliers and the year 2012 we have nearly finalized setting up or commencing an MDF plant with 1000 CBM capacity in Nellore. During that time we had agreed with simple CAM, which is the world's largest manufacture, is MDF machinery. However during the recent past we visited China because after supplier for the particleboard plant told us that there are Chinese company are now which are producing excellent units to the extent that they have erased the European manufacturers from the Chinese market. We went to China and we studied the machinery that was being supplied by a company called Ya Lian which is our principal supplier and we found that the plant that they had commissioned four years ago were operating at a

140% capacity without a single floor four years later and what we noticed was this was the version 1, version 4 which is the plant we are going for is far superior to what they have initially made has the lowest possible raw material cost and gives out the best quality final product with the 10 year 100% no problem guarantee and beyond that minor repairs etc., same as any European manufacture. So I believe the quality of the plant in itself is equivalent if not superior to any European plant that we could have gotten.

Basudev Banerjee: For a similar cubic meter capacity what will be the capital cost difference either discount or premium to the European one?

Keshav Bhajanka: Our plant would be at least 25% cheaper.

Basudev Banerjee: Sir one broader thing like we have been growing at a very good pace in the MDF market and despite that bulk of the demand has been taken care by the imports because lack of domestic encumbrance supply all together, so while you sell for your largest peer have taken so much time to decide to add capacity to cater to the demand fortunately this duty announcement today is step in the right direction but both of you could have moved in this direction at least three four years prior itself?

Arun Julasaria: I will take you into the past. Almost around 1988-1990s two units have started in India one was Mangalam Timber and another one is New Chem New Wood so they had almost capacity of 100 cubic meter each and it took them to sell that capacity in Indian market more than 20 years and so this is change from plywood to MDF people started accepting it is a very recent phenomenon and say four five years back when Green is started production simultaneously Bajaj Hindustan started then this **(inaudible) 1.14.20** industry is started and almost at the same time this **(inaudible 1.14.30)** they have started so all of a sudden there was a fresh capacity of 1200 cubic meter in the market and you will be surprised the entire capacity exhausted because they did some aggressive marketing to market MDF to replace second time so for one year it did good, but after that again there was a repulsion and people were not happy, they had a lot of problem in using that and then again there was contraction in this and all of a sudden so much MDF capacity came the price of timber increased even Green were planning that time timber price were Rs.1.50 a kg and by the time they started production it increased to Rs.4.50 a kg so the margins and everything was under stress. So people they became little cautious and you know to plan MDF it takes time, buying land it needs bigger plot of land and you have to take the license, our license for MDF was taken in the year 2006. So somehow we are keeping it alive by proceeding the government agencies and ultimately now only we have decided that time has come, we cannot delay it anymore and whatever there is delay in capacity in MDF but in future I think plywood will maintain or grow at a reasonable rate because there are carpenters based on plywood, there are certain uses like in niche category so they go for plywood like market houses and all others so they for aesthetic part also they do not want to change to any other product and tailor made things mostly would be made out of plywood and readymade sort of things, the factory made things, they will mostly MDF or particleboard and partly this will replace the normal use of plywood also like Sajjan explained to you for the like bed bottom, for partition, for rooftop ceilings so this will be there in China and everywhere that version mix plywood have not given up totally anywhere and rather it was growing but then the pace slowed down in plywood and MDF I am sure may be after five years Century will have five units in different part of the country manufacturing MDF.

Basudev Banerjee: Sure Sir and as you rightly highlighted previously in the call that bulk of the ply market is still though on a cheaper side and unorganized side so though your premium side will continue to grow in its own way but this should ideally help from the movement from unorganized market to the organized players in terms of a shifting from lower end ply to MDF?

Arun Julasaria: That would be that the GST would be defining factor in this because our duty and tax implication is around 28% whereas the organized some of them managed by around 10% so after GST because the end user will not compromise. He will ask for the import billing. Similarly anything imported into India the GST would be charged at the port so there will not have any room for maneuvering because whatever they say that I will import that you have to realize from their cells, and the end customer and dealer he will because he profits may be 5% for at the rate of 18% he may have to pay only 9% income fee so he will not compromise he will not take under invoice bill because then the tax implication will increase, so that will change and once GST comes then there would be lot of migration from unorganized to organized. So may be the total plywood market may be little like standstill or growing at 5% to 7% but organized share may increase from 30% to 50%.

Basudev Banerjee: Sure Sir, that is helpful. Thanks.

Moderator: Ladies and gentlemen due to time constraints that were the last question I would now like to hand the floor over to the management for their closing remarks. Thank you and over to you Sir!

Sajjan Bhajanka: I really thank you all for your patient is almost one and half hour so we are delighted seeing your interest in our company and the way you have patronized and we are trying our best, we are working with full sincerity and with 100% integrity whatever is there it is shared with you and we are very, very confident that the sale we able to continue this momentum and this year was not that good not as per our satisfaction. We always target minimum 20% growth ideally it should be 25% by organic way or inorganic way, by Brownfield or Greenfield and we keep on adding so may be in the course of next apart from our MDF plant and particleboard plant may be we shall be acquiring some units also so let us see. Thank you very much.

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