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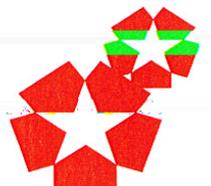
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“Century Plyboards (India) Limited Q1 FY2023
Earnings Conference Call”

July 21, 2022



ANALYST: MR. AASIM BHARDE - DAM CAPITAL ADVISORS LIMITED

MANAGEMENT: MR. SANJAY AGARWAL - MANAGING DIRECTOR - CENTURY PLYBOARD'S INDIA LIMITED
MR. KESHAV BHAJANKA - EXECUTIVE DIRECTOR - CENTURY PLYBOARD'S INDIA LIMITED
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MR. NEHAL SHAH – CSO AND HEAD OF INVESTOR RELATIONS - CENTURY PLYBOARD'S INDIA LIMITED



Moderator: Ladies and gentlemen, Good day, and welcome to Century Plyboard's (India) Limited's Q1 FY2023 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Aasim Bharde from DAM Capital Advisors Limited. Thank you, and over to you!

Aasim Bharde: Thank you Mallika. Good evening and on behalf of DAM Capital Advisors, I welcome you all to Century Plyboards Q1 FY2023 Conference Call. We have the senior management on line with us here. At the onset, I would like to congratulate the team on an excellent Q1 performance and wisdom continued success ahead, and now I will hand over the flow to Mr. Arun Julasaria – CFO of the company. Over to you, Sir!

Arun Julasaria: Thank you. Good afternoon ladies and gentlemen and welcome to Q1 conference call of Century Ply. First of all I would like to speak the customary disclaimer that this call is just to discuss company's historical numbers and forward-looking statements and in no way it should be construed invitation to invest in the shares of the company.

The results for the Q1 have already been put on company's website, stock exchange website along with detailed analysis and also mailed to you separately. I will not spend more time in repeating those numbers, but I would like to tell you that usually Q4 of every year is target and best quarter and the cascading effect of that is spill over to Q1 also. But in our case this time Q1 is also equally best quarter compared to Q4 of last year.

Turnover is almost same negligibly down by only 1.5%, but you if you compare it Y-o-Y it is almost double higher by 96.4%. This Q1 was challenging quarter because raw material prices were on higher side, but we could manage our profitability by higher volume. All our segments have done well. As usual MDF has all its past records in case of plywood EBITDA margins are down by almost 4.5% reasons for which will be explained by MD in due course.

With these words not taking much time, I will open the house for question and answers.

Sanjay Agarwal: I would like to make a little bit of a talk to everybody before the question answers are open. Thank you everyone for taking your valuable time out for attending the Q1 FY2023 Century Plyboard's investor conference call. I am Sanjay Agarwal - Managing Director of Century Plyboard's India Limited. I have alongside me Mr. Keshav Bhajanka - Executive



Director, Mr. Arun Julasaria - CFO and Mr. Nehal Shah – CSO and Head of Investor Relations. I presume that everyone of you would have gone through our numbers in detail.

Let me brief you some of the key highlights: After delivering record sales in Q2, Q3 and Q4 last year, it gives me immense pleasure, to share, that we have achieved sales of Rs.878.35 Crores in the first quarter, usually which is the leanest quarter of a financial year, which is just a tad lower than the Q4 FY2022 sales. Our Plywood and particleboard segments revenue records 100% year-on-year growth while laminates and MDF segments revenue grew 86% and 71% year-on-year respectively for the quarter.

Despite the sustained input cost pressure in core segment of plywood and laminate we have been able to mitigate a large part of our gross margin pressure by taking corresponding price increases and also through operating leverage. Our overall gross margins were down nearly by 140 BPS quarter-on-quarter to 34.1% in Q1 FY2023.

Driven by resin price hikes and our superior product mix, our laminates, MDF and particleboard segments reported gross margin improvement in Q1; however, our core plywood segment for gross margin contraction of 3.70 BPS quarter-on-quarter. Despite the overall gross margin pressure and our aggressive branding spends the overall EBITDA margin for the quarter, stood firm at 17.2% down nearly 140 BPS quarter-on-quarter.

While our plywood division reported 10.4% EBITDA margin in Q1 driven by aggressive brand spends, lag effect of pass on of recent price hikes and operating leverages we still maintain 13% to 15% EBITDA margin guidance for FY2023. This is likely to be driven by front loading of advertisement and promotion spends in Q1.

Full absorption of price hikes taken in Q1 and expected operating leverage. While MDF and particleboard segments reported record high margin of 35% and 36% respectively the laminate EBITDA margins adjusted for BCG expenses stood at impressive 16.4%. It may be noted that input cost inflation has softened a bit in last quarter; however, craft paper and phenol prices have seen a further surge on a month-on-month basis.

Timber prices continue to remain elevated, but the surge has settled down. Price increases taken in Q1, plywood 2%, premium plywood 3%, Sainik PF also 3% and 7% in Sainik MR, laminate 4% to 3% in 1 mm and 0.8 mm respectively, MDF and particleboard about 9%, 5% in April and 4% from 14th of June.

Our MDF Brownfield expansion at Hoshiarpur is as per schedule and is expected to come on stream by October 2022. Our South MDF capex has received all requisite approvals and the machinery has been ordered. We expect the facility to come on stream by second half of



FY2024. Our Greenfield laminate manufacturing unit in Andhra would come up in two phases; the first phase is expected to become operational in Q2 FY2024. Our working capital stands comfortable at 58 days in Q1 FY2023 an improvement of about 5 days compared to last financial year. We remain a net cash positive company with net cash position of 184 Crores as on June 30, 2022. Our Q1 FY2023 ROCE stood at the healthy 29.36%.

With this I welcome you again all to this conference call and we open the conference to question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Rahul Agarwal from InCred Capital. Please go ahead.

Rahul Agarwal: Good afternoon. Congratulations on a very good set of results. Two questions and one clarification; firstly on the ply gross margins they still look depressed at 28% and you have already taken price hikes in 1Q. Would that be sufficient for us to go back on a normalized level?

Sanjay Agarwal: You see the price hikes have been, two reasons one is the timber price hike, so that actually we have already factored in our price increase and because we took it little later, which there is always a lag, so we increase the prices by 2% to 3%, but again in that quarter maybe even less than 1% on the whole. So the whole effect will actually come in this quarter. So that is the first thing. Second price hike is because of you can say phenol. So phenol, yes, we expect phenol to again come down very soon because everything, all such products in the world are coming down, the prices are coming down so that we have not taken. So we expect that due to leverage of our production quantity and the price coming down we will be able to take it forward and attend our original EBITDA of 13% to 14%.

Rahul Agarwal: Correct Sir, you also mentioned some up fronting of A&P spends for plywood. Could you please quantify that, how much was that?

Sanjay Agarwal: That actually we had announced in the last quarter also that this year we are going very aggressive as far as advertisement and promotion is concerned. So we have taken a very heavy budget and most of it, a large part of it has been spent on IPL that is why the first quarter actually be as the biggest brunt as far as plywood advertisement and promotion is concerned. So that itself that one single item is actually costing 1.5% extra over and above the normal spend actually. So we expect that all these things will normalize in times to come.



- Rahul Agarwal:** Second question was on MDF and particleboard. Now obviously with record operating margins of 35% plus and we all know that it will not sustain here going forward it should come down, but what is going in their favor of these products today right now like how long do you think this is sustainable?
- Sanjay Agarwal:** See we have always maintained that our margin for MDF and particleboard will be around 25%, but yes because of certain factor the markets are good, imports are not at all there, new production capacities are not coming up so fast. So all those factors actually the markets are good, so we are reaping a harvest actually at the moment and we expect this to continue for at least a year and we really do not know what will happen after a year and the second thing we have done is actually the product mix also what we are doing about 70% of the particleboard was being sold like a pre-lam and best of it as a pre-lam. Now we have decided to increase this pre-lam to over 85% to 90%. So that is also making a little bit of a difference. Even in MDF we will see that the pre-lam comes to 2% points. So that also affects the margin positively.
- Rahul Agarwal:** Lastly one clarification on the container freight business. I thought the slump sale was earlier in November 2021 when it was announced it was about 52 Crores. The press release yesterday talks about 33 Crores; my sense is this slump sale is done to Century Infra which is a 100% subsidy. So the pricing is really does not matter, but just wanted to understand why is the difference here?
- Sanjay Agarwal:** You see we have to consult there may be an impact of income tax. So keeping that in view we have consulted with all the Income Tax Consultants and Chartered Accountants and our auditors and this is what is the best thing to do. Otherwise we will come into net of some income tax when it is going from one pocket to another pocket only of the same person.
- Rahul Agarwal:** Got it Sir, I will come back in the queue. Thank you so much and wish you very best.
- Moderator:** Thank you. We have the next question from the line of Praveen Sahay from Edelweiss Wealth. Please go ahead.
- Praveen Sahay:** My question is related to the utilization across the segment, especially the plywood and the MDF, so where we are in the utilization can you give some numbers?
- Keshav Bhajanka:** Capacity utilization in Q1 across product categories as under. Plywood is 82% versus 84% Q-o-Q, laminate 89% versus 97% Q-o-Q, MDF is 98% versus 97% Q-o-Q and particleboard is 120% versus 115% Q-o-Q.



- Praveen Sahay:** And the next question is as Sir has said about the realization in the MDF, pre-lam MDF. So what is exactly the difference between the pre-lam MDF and the MDF realizations?
- Sanjay Agarwal:** What is the difference in realization is not there in my hand right now actually, but the profitability is better.
- Praveen Sahay:** How much is that?
- Sanjay Agarwal:** Plain MDF realization is Rs.31000 per cubic meter and the pre-lam MDF is 44000 but in MDF the pre-lam sales is only up to 20%, in particleboard it is very high, most of the particleboard is sold as pre-lam actually.
- Praveen Sahay:** The last question related to the raw material as you had said that the timber price is still continuing on the higher side. So do you expect the price increase in this quarter as well second quarter?
- Sanjay Agarwal:** See the price increase in the timber we have already passed on, the total has been passed on. The effect has not come in till now because there is always a lag in making up the mine and passing it on to the market there is always a lag and after that the timber prices are stable now which I spoke also in my speech so I do not think that immediately there will be an increase in timber prices, but historically whenever there is a price increase in timber we have very successfully and easily because the whole timber industry, whole plywood industry is affected. So it is passed on sooner or later but maybe there is some lag it will be passed on if there is any another increase it will be passed on.
- Praveen Sahay:** Thank you Sir. Thank you for taking my questions all the best.
- Moderator:** Thank you. We have the next question from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.
- Girish Choudhary:** Sir, thanks for taking my questions. Firstly you did shared the reason for the higher A&P spend, but that would be helpful if you can share the exact quantum of A&P spend this quarter versus last quarter.
- Sanjay Agarwal:** I cannot hear clearly actually your voice.
- Girish Choudhary:** I was just wanted to know the exact quantum of the A&P spend this quarter versus last quarter?



- Keshav Bhajanka:** This is the data that we would not like to disclose that quantum however as the MD has already stated there was a front loading of A&P spend that took place in Q1 compared to the rest of the year.
- Girish Choudhary:** Certainly any thoughts on setting up of increasing particleboard capacity?
- Sanjay Agarwal:** Particleboard capacity you see we are yet to take a final decision on, because we took a decision that we will be going in for a multi-daylight horse race and then there again our mind is still confused that whether we could go for a continuous line. So it is still the debate is on, technically and commercially both angle it is the debate is on. I hope we will be able to decide within next one, one and a half months. But the decision of expansion is sure, the area is decided, but of course the decision is a decision as long as it is not made, it is not made and these decisions are actually very long-term you see putting up a plant that will be affecting this company for next 50 years. So there is no problem in taking another two months or three months in taking such decisions.
- Girish Choudhary:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Mr. Achal from JM Financial. Please go ahead.
- Achal:** Thank you for the opportunity. Congratulations for the great numbers. What I wanted to check was in terms of the mix is there any change in the mix Q-o-Q in the plywood business in terms of the premium and Sainik and Sainik MR?
- Sanjay Agarwal:** You see what happened April was normal, June was normal, May I think whole country, all the products were little affected even plywood was affected in every way, but the numbers came back in the month of June and again even in July it seems to be normal. So yes it was effective in May a little bit but yes we are back on track.
- Achal:** But specifically in case of plywood is growth in the non-premium higher than the premium segment in terms of the volume growth?
- Sanjay Agarwal:** You see generally you have seen that the premium segment growth is lower the non-premium segment growth is quite high and that is actually our decision and clarity of the market that the value of the market is where we will be able to grow the top angle is already filled in by two, three people and none of us are going to relent our market share to anybody else. So the growth there is certainly lower and the non-premium segment is growing faster and better.



- Achal:** Is it possible to share in terms of the mix how was it for the first quarter?
- Sanjay Agarwal:** The numbers right now is little difficult I think you can connect with Nehal later on maybe.
- Achal:** Sure. My second question was with respect to timber price can you help us in terms of what is the extent of increase on a Y-o-Y basis for the plywood segment?
- Sanjay Agarwal:** The core prices went up by about 5% and which is about 50% or 52% of our plywood cost. So about the price increase was actually the cost in increase was about 2% to 2.25% and that is what exactly will be more than that only we have passed on.
- Achal:** The core timber prices of 5% Y-o-Y for first quarter FY2023?
- Sanjay Agarwal:** That is on Q-o-Q.
- Achal:** But what about Y-o-Y how much would that be up?
- Keshav Bhajanka:** Y-o-Y we will get back you shortly definitely higher that you can connect with Nehal or me that we will give the data.
- Achal:** Just a question on the MDF industry obviously at this point in time things look great, but if you could help us in terms of what is, because we sense that the container freight rates have come down, imports are going up. So can you help us in terms of what is the landed price for imports?
- Sanjay Agarwal:** See the inward freight for MDF particleboard has gone down to \$22 to \$23 about three years back after that right now it is not less than \$100 still. So there is no chance of any imports a little bit here and there people may still try and do but there is no chance of any import at the moment especially particleboard is absolutely zero and for MDF still there is no chance and especially for the North India so it is absolutely impossible because once you import and then you now carry forward to the north it is an impossible task and impossible thought actually and we believe that in times to come we are becoming very efficient, we are becoming larger in our quantities, whether I expect India to export MDF in two years time by making some profit not because that we have to just consume our capacities but by making some profit we will be able to export MDF in two years' time.
- Achal:** Just another question with respect to that capacity can you help us understand is there any capacity addition even in the smaller unorganized player segment as well?



Sanjay Agarwal: You see that is always one on another but I do not have the data at this moment. You see there is always I think one small manufacturer comes in every one year or one and a half year one small manufacturer comes up to maybe 200 cubic meter a day, some large plants like our plant in South and our 400 cubic meter capacity in North then XME is also I think expanding the capacities, but none of these capacities are due and next year. So we expect the market to grow by 20% every year in MDF. So yes whenever a new capacity comes there will be a little bit of hike in the market, but it is not going to be a big deal because 20% growth in a particular segment is a huge growth at least, if the present total sale is 5000 cubic meter you are already grown in a year by 1000 cubic meter per day. In next two years time I think market will be ready to absorb all the expansions which are coming.

Achal: Understood that is very helpful I will come back in the queue. Thank you.

Moderator: Thank you. We have the next question from the line of Shrenik Bachhawat from LIC Mutual Fund. Please go ahead.

Shrenik Bachhawat: Sir thanks a lot for taking my questions. My first question is regarding the demand scenario where are we seeing the strong demand from mainly it is the metros or tier two and below cities?

Sanjay Agarwal: Actually what happened is we really do not know this what happens any company which of our size has really done quite well within the metros. So our expansion and our growth mostly comes from tier 2, tier 3, but it is really the tier two, tier three growing more than the metro that is, I do not think I will be able to answer that question, but yes as far as our company is concerned we are growing much more in the tier two, tier three at the moment and that is where we are putting in our expansions or new areas, new towns, new people being hired out there, new dealers being appointed out there, all those growth inputs are happening in tier 2 actually.

Shrenik Bachhawat: My second question could you throw some light on how is the unorganized ply sector performing as of now and the strong volume that you have delivered is it the result of market share gain from the unorganized players or the industry is growing at this pace?

Sanjay Agarwal: Again you know I have always told that we do not have any reliable study or reliable data, but if you see, if we have achieved the 1400 Crores plywood and if you say that we are still a 20000 Crores market then actually it is a 7% so certainly our market share has grown and this market share mostly is growing in the non-premium segment or you can say the middle segment of sending. The premium segment is growing from whatever and then we were selling I think we have grown in last two, three years we have grown about 50% in that



segment also, but the bigger gains even in terms of the new dealer appointments everything is happening more in the non-premium segment.

Shrenik Bachhawat: Sir then the ply and laminate segment we delivered very strong volume growth of around 10%, 2% on three year CAGR basis. So can we take that as an assumption for the next three years for the ply and laminate segments that we can grow at 10% CAGR for the next three years.

Sanjay Agarwal: Laminate we are putting up a plant in South. We have two expansions coming up one after another, two phases, and as far as plywood is concerned actually we believe that we can grow faster, we can grow more, but maybe some mistakes on our part is keeping us where we are actually that is how we feel but yes it is not an organized industry, it is not like cement or it is not like tiles where you get people who really know the businesses here we are actually learning and growing and deciding new innovative ideas of selling and marketing and succeeding. So I believe that yes we have good possibility.

Shrenik Bachhawat: Thank you so much.

Moderator: Thank you. We have the next question from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Thanks a lot for opportunity, congratulations Sir on great set of numbers. Sir while you have mentioned that the industry scenarios of course not known and how much imports will be there and how many capacities will be added in the MDF segment over the next two years. Just want to understand your vision what is your target this particular time when you are coming up with such a big capacity in MDF division both Brownfield as well as Greenfield any target utilization that yourself for first year, second year or third year of operation or over the period of two to three years that you would like to mention?

Keshav Bhajanka: If you look at the past we have been the fastest to utilize our capacities within the MDF for the particleboard space and I think that trend is likely to continue in the near future. Once our capacities come in, our target is that within the first three years we will reach 100% capacity utilization so I think the breakup of that the staggering of that could differ slightly based on when the plant comes online but it is just within the first three years we should be able to reach 100% capacity utilization.

Sneha Talreja: That is similar to what you did in the past and that is why you are maintaining a 25% plus market guidance at this point of time?

Keshav Bhajanka: Yes.



- Sneha Talreja:** Also I just wanted to understand the amount of price hikes that we have specifically taken only in Q1 FY2023 with regards to all the segments in case someone can help?
- Sanjay Agarwal:** Price rise actually I spoke about the price rise lately I can repeat it in Q1 we have taken plywood 2% in premium, 3% in Sainik TF and 7% in Sainik MR. Laminate we took 4% in 1 mm, 3% in 0.8 mm, MDF bill particleboard 9% two different one is in 5% percent another is 4%.
- Sneha Talreja:** Understood, thanks a lot and all the very best.
- Moderator:** Thank you. We have the next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Sir in plywood we took around 3%, 3.5% price hike in the fourth quarter I think out of 8% the pricing we take out of in the entire year and on top you said that we have taken 2.5%, 3% in the first quarter maybe 1% may be full impact of that. So almost 4% price hike in last six months despite that our gross margin in Q-o-Q has deteriorated by close to around a 190 base point so product mix has deteriorated a lot in favor of economic segment or anything other which can try impact the gross margin?
- Sanjay Agarwal:** I explained I think a little earlier that 1.5% is actually because of dispatch.
- Jignesh Kamani:** No, but I am saying in fourth quarter we have taken a 3%, 3.5% price hike.
- Sanjay Agarwal:** I will request Nehal to explain this.
- Nehal Shah:** Gross margins yes you are right that has come down but that is because of couple of reasons one is the lag effect of price increase and second is as MD said in the month of May because of the slowness in the market the mix was high towards the non-premium segment and which is what has driven gross margins down, but as we said June has come back to normalcy and so we expect the gross margin also to recover subsequently.
- Jignesh Kamani:** You do not expect that production should continue to remain more toward the economic segment and hence which will impact the gross margin structurally?
- Nehal Shah:** Sorry can you repeat.
- Jignesh Kamani:** You do not expect that production will continue to remain more in favor of the economic segment as the growth is more coming from that and which can structurally impact the gross margin?



Sanjay Agarwal: You see the premium segment is not growing as fast as the non-premium segment and that has been the thing I think we have been telling from the very beginning this is the belly of the market where actually about 40% of the market lies actually. So I do not think, yes, overall if you can say that it will come down but then you see what we have told always that we will be trading between 13% and 15% total EBITDA margin that should be a big thing.

Jignesh Kamani: What I am saying is the downside bridge to this margin band is more and more share of plywood growth is coming from the economic segment?

Sanjay Agarwal: With that you have to understand that by the better utilization of our machinery, our costs everything you see 50% or 55% or 60% is the cost of raw material the rest of it is actually overheads the more we sell actually we will have more leverage as far as our profits are concerned and if you can grow more in premium you do not need an accountant to tell us that yes we will get better profits but when to grow in that segment is not that much possible. Yes, the more important is that we do not go down in that segment. So for that we have taken all our incentives, increments there are loss applied if you do not sell the premium segment automatically the supply of non-premium segment gets stopped to that branch. So automatically these people have to take care of it they have no choice.

Jignesh Kamani: Second in particleboard in fact in MDF share you mentioned that at least for one year margin may remain elevated and then once a new capacity comes margin might taper up to 25 kind of band how is the demand supply scenario in particleboard because I think no new capacity is coming as per our knowledge in the particleboard so to what level the margin can remain at elevated level?

Sanjay Agarwal: No you see particleboard small plants of the 100, 150 cubic meter keeps on coming mostly in you can say either in North India or in Gujarat some of them are based upon the sugarcane also, bagasse. We are very seriously contemplating putting up either a quantity roll manufacturing unit for maybe about 800 cubic meters a day or maybe another plan for 400 cubic meters a day but we have not taken a decision till now. Definitely, yes, the demand is good that is why in Q1 we have been able to increase the prices in that 9% which is actually a formidable unthinkable kind of price rise within the quarter actually. I do not see that, even going ahead I tell you to import particleboard because it is a cheaper product, the spread costs are much higher in percentage and I do not think the freight cost will go down to those \$20, \$25 in next two, three years also. So I do not think particleboard will be imported anymore in India.

Jignesh Kamani: So then margin will remain elevated 35% plus for the entire year but maybe slightly more?



Sanjay Agarwal: I cannot say that I will still maintain that we will do everything to manage the 25% everything else is actually we are reaping from harvest and the things are right, and we have done some small, small things. I told you, we are increasing the pre-lam sales in the market and we are also looking at selling most of it near our plant. So we are discouraging the sales away from our plant. So that is also increasing a little bit of profits all those things are going on continuously.

Jignesh Kamani: Thanks a lot.

Moderator: Thank you. We have the next question from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir good evening. Thank you taking my question. My question is with respect to particleboard and the capacity. So you mentioned that you are already at about 120% capacity utilization you also believe that the margins will continue to stay at elevated level there is no large capacity coming. The only I think other organized player will probably be getting capacity two to three years down the line, but yet we are not adding capacity in this segment can you please elaborate on the same and it was part of the plan we chalked out when we said that we want to double our revenues in about five years?

Keshav Bhajanka: We have just mentioned that we are definitely going to go for an extension. It is just coming to a decision as to what unit we want to set up whether continuous press or a multiplied press and if you see the investments are not there for a year or two years it is like our assets for the next 20, 30 years. So I think another couple of months we will definitely see a decision coming in the particleboard segment as well.

Alisha Mahawla: This will be a Greenfield or the Brownfield or that is also yet to be decided.

Keshav Bhajanka: We will update you as and when we come to a final decision.

Alisha Mahawla: And there was also some capacity expansion for the plywood that was being planned?

Keshav Bhajanka: Yes, that was more to do with the debottlenecking exercise. As we said on the last call our capacity now stands at 3 lakh CBM and this year with the kind of debottlenecking exercise we are going through this capacity would increase to 330000. So straight away we will add another 10% to the existing capacity plus we are utilizing almost our utilization levels are at 85% so we have enough capacity for next two years to service the market.



- Alisha Mahawla:** Just one last clarification again based on the capacity utilization it seems like any volume growth in this year will largely only be in the ply or the laminate space because the other two segments currently seem to be almost completely utilized?
- Sanjay Agarwal:** No MDF we are putting up that plant of 350 cubic meters which will be online from September end or October of this year. So I think we will be able to utilize the capacity for last four months at least of this year. So that will certainly give us some extra in MDF.
- Alisha Mahawla:** Okay thank you.
- Moderator:** Thank you. We have the next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.
- Nikhil Agrawal:** Good evening Sir and thank you for the opportunity. Sir, just a couple of questions like are we facing any kind of timber availability issues for plywood and MDF?
- Sanjay Agarwal:** There is no timber availability issue at all. Yes, in last quarter some of the prices of timber in North India not in South India North India increased a little bit, which we have passed on to our customers. Right now the prices are stable even in North India or South India both they are stable.
- Nikhil Agrawal:** Like has timber prices for plywood increased or is it for MDF as well?
- Sanjay Agarwal:** It has increased for both because actually these are related in one area in Northern zone the prices have increased. So it has increased for MDF as well as plywood. In Southern India for our particleboard and plywood product it has not increased.
- Nikhil Agrawal:** But we have not taken any price hikes in the MDF segment any reason for that because the timber prices have increased that we have not taken any price hikes in MDF?
- Sanjay Agarwal:** See the reason being may be that these are for MDF actually this is not a very good season that is number one reason. So the season for MDF it starts even two months later so before that to actually get into the market and try to fight it out is not so good and I think we have compensated that increase by other ways of by increasing pre-lam, by increasing our capacity utilization by lowering our cost other costs and that is reflecting in our profit margins also. So we felt that it is not required to increase the prices of MDF. You see the costlier you make that has been MDF has been taking away market share from lower segment plywood, the lower segment plywood becomes cheaper than MDF then again the MDF will be replaced by plywood.



- Nikhil Agrawal:** Just one clarification Sir have your plywood capex been delayed or anything the plywood plant which is coming up in Punjab?
- Sanjay Agarwal:** You see in India today everybody in the world is talking about China Plus One theory but India is still unable to take the full advantage. The biggest issue in India is to get land. There are many, many multinationals I think want to come to India and they want to put up plants, manufacturing capabilities, and we are also even being we are in Hoshiarpur we already have a plan for our another plant we are trying very hard to get a land, twice already we have great advances and we have got that money back before we could not take the deal through. The same things you have seen in our Andhra MDF plant also the delay was only because of land once we have got the land you see we are moving very fast the machinery orders have been finalized, the contractors have been finalized all those things are moving quite fast that is what is happening because land in India is a huge thing it is not in our control you see one single piece of land you have to buy from 40, 50, 60 different owners it is a huge.
- Nikhil Agrawal:** So have we procured the land as of now or it is still in the process?
- Sanjay Agarwal:** No, it is still in the process and that is why what we have done is actually not to suffer we have increased our capabilities a little bit in all our plants we have debottleneck the things and that is how we have increased our capacity in our existing plant by 10%.
- Nikhil Agrawal:** Thank you so much Sir. That is it from me.
- Moderator:** Thank you. We have the next question from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.
- Rajesh Kumar Ravi:** Sir, good evening. My question pertains to first on the laminate where is the capacity expansion coming up for you?
- Keshav Bhajanka:** We have a capacity expansion that is coming up in South India. It is going to be fourth test expansion in two phases, phase one will be two hot furnaces and phase two will be two hot furnaces.
- Rajesh Kumar Ravi:** And location where in South is it finalized?
- Keshav Bhajanka:** It is going to be alongside our MDF unit in the same compound which is in the Gopavaram District, Gopavaram region of Kadapa District in Andhra Pradesh.



Rajesh Kumar Ravi: So among the bigger capacities you would be maybe the only one with big capacities in South is that understanding right?

Keshav Bhajanka: No. There are other players who have capacities in the south but yes we are coming up with a big capacity in the south.

Rajesh Kumar Ravi: Yes, from a bigger capacity perspective and on the particleboard could you let us know what capacities are coming up in India in next one, two years by other players in the market?

Keshav Bhajanka: See there are a lot of small capacities that are coming from unorganized players. It is very difficult to quantify it because those decisions are very sporadic and we are planning to buy a secondhand plants etc., but there are two players who are coming to come up with continuous presses one being Merino Industries and second being Greenlam Industries so these two are planning to come with continuous presses over the course of the next year to two years.

Rajesh Kumar Ravi: What would be this Marino what is the capacity they are adding?

Keshav Bhajanka: I am not sure.

Rajesh Kumar Ravi: In the laminate business again the margin this quarter and with the price hike that we have taken do you expect margins to remain strong as we have seen in Q1?

Keshav Bhajanka: Yes I think laminates margins are going to be looking similar to or perhaps slightly higher than what they were in Q1.

Rajesh Kumar Ravi: Great Sir, I will come back in queue. Thank you.

Moderator: Thank you. We have the next question from the line of Rishab Bothra from Anand Rathi. Please go ahead.

Rishab Bothra: Good afternoon Sir and congratulations on good set of numbers. Basically two questions, one on the raw material side and the other on finished goods side. In raw material whom do we compete in terms of acquiring raw metal and how is the process like is it bidding, is it international price driven?

Keshav Bhajanka: Which products are you talking is it MDF or is it plywood?

Rishab Bothra: I mean the log site.



Keshav Bhajanka: Yes, but for MDF if you are talking of MDF then we are fighting with paper manufacturers actually. So people like ITC or Bhadrachalam and all those people who manufacture papers so because the raw material is same.

Rishab Bothra: Their source is from with same belt, same region?

Keshav Bhajanka: Because there are paper industries in North and there are paper industries in South so the people in South procure from the South plantations and north procure from the north plantations and if you are talking of plywood then we are competing only with other plywood manufacturers only. It requires bigger girth, bigger diameter of the timber which happens in maybe about six years or six to seven years and it becomes costlier so no other industry can be say that price that plywood care.

Rishab Bothra: How the pricing derived international pricing or auction pricing how is it?

Sanjay Agarwal: International pricing actually we have practically no competition because no logs are coming from anywhere in India now neither India is exporting anywhere except some decorative species, so that decorative species are not produced in India except some teak so there is no competition, so there is no knowledge also you see, no needs and no knowledge.

Rishab Bothra: In terms of the procurement in veneer is slightly premium product so are these specialized personnel required to visit those forest or how is it?

Sanjay Agarwal: Veneers are our buyers people who understand this subject very well. So they keep on traveling to Europe or America or South of America and we know who are the suppliers for which species. So we keep regularly in touch and we make maybe two or three digits in a year to procure. So go personally the buyer goes there he personally passes consignment he notes around all the details and then it is imported.

Rishab Bothra: On the finished good side can you elaborate on the end user, who are buying our products let us say architect contractor or is it a home buyers or is it institutional buyers?

Sanjay Agarwal: Which online product are you talking again different products are bought by different people I was totally in say plywood is bought by the consumer mostly by consumer and some for big projects like Indian Parliament is being done so that plywood will be bought by a big contractor because if you are talking of MDF, MDF is bought by mostly original equipment OEMs we call them OEMs like Godrej or Featherlike and there are thousands of them in the country now. So they are the people who buy particleboard and MDF.

Rishab Bothra: So our online retail furniture's of that also your customers, Urban Ladder or Ikea?



- Sanjay Agarwal:** They are big customers of ours.
- Rishab Bothra:** If from next quarter onward if you could highlight what proportion of your sales is value added and how much is it institutional buyers in different segment I mean you can club it under one row item this would be helpful?
- Keshav Bhajanka:** It is actually a business secret so that data we would not want to disclose.
- Rishab Bothra:** Okay thank you. I will come back in queue.
- Moderator:** Thank you. We have the next question from the line of Aasim Bharde. Please go ahead.
- Aasim Bharde:** Just one question from my side. Given the Q1 performance would you want to update your volume expectations for FY2023 across segments compared to what you had said in Q4?
- Sanjay Agarwal:** I think we maintain the same. I think Nehal can repeat it.
- Nehal Shah:** Yes so we would reiterate our guidance which would be on the call last time. So our Endeavor is to grow by 20% plus for the company as a whole, for plywood we expect 15% volume growth and 20% value growth, for laminate would be 15% volume and value, for MDF would be 20% plus volume and value, and for particleboard would be 10% volume and 20% value. Having said that yes we have grown by 94% in the first quarter. So technically that means we will grow by almost 7% but our endeavor would still need to grow in double digits for the rest of the three quarters.
- Aasim Bharde:** I think the nine month volume expectation would be flattish across segments if you just maintain your Q4 volume growth that is what the question.
- Nehal Shah:** Exactly so that is what I said because we have grown so well in first quarter our endeavor is to grow by double digits going forward over the next nine months.
- Aasim Bharde:** Sure thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Priyam Khimawat from ASK Investment Managers. Please go ahead.
- Priyam Khimawat:** Congratulations team for an excellent set of results. Two questions from my end. Firstly on MDF you alluded that despite the fall in container freight prices imports are still not feasible and things look good for the next one year. But just hypothetically if we were to say that imports start coming in will it impact the margins to the extent it did in last cycle or



because of our various initiatives like increasing share of pre-lam etc., the impact would not be that much because when I look at some volume data we sold around 20000 CBM of pre-lam on an annual basis in FY2019 and 2020, but now in just one quarter we have sold around 10000 CBM so just wanted to understand this from your end?

Sanjay Agarwal: You see, there is no chance of any import why I say because the cost of import the only logistic cost is \$100 which is very, very high with Rs.8000 is only per CBM this is only the import cost but if you say that yes if it is imported it will start impacting them and their prices these are the two things. If it is important that means it is feasible that means it is coming at a price which is lower than our prices. So the moment that happens yes our prices will have to go down a little bit to address.

Priyam Khimawat: So even higher end MDF has impacted in a similar manner if imports start coming in?

Sanjay Agarwal: Very frankly no because the imports are of only plain MDF and pre-lam MDF is only because they are very specific somebody want 100 pieces somebody wants 50 pieces of a particular color but what happens there are people who are only laminators so they can fill in theirs so once the plain MDF starts coming in it is going to impact everything but I do not see at all any possibility in near future at least this one year time rather more as far as logistic costs are concerned the shipping across the world the way it has changed I do not think it will settle down in less than next two to three years because the number of seats required to fill in the requirement is huge and those seats to really be made and put into service is a long-term task it is not a small one year or two year task.

Priyam Khimawat: Sir and for the Brownfield of 400 CBM in north we had earlier highlighted that margins might be slightly lower because we will have to procure timber at higher levels due to some shortages any update on the same.

Sanjay Agarwal: You see again no we expect the moment we go for a higher volume there may be because any business should expect this but the way the markets are maybe we should not maybe we will not have to compromise with our prices, but you do not know how the market reacts at that time even if it reacts maybe 1% or 2% here and there they are already whatever we want to achieve is 25% then you are already at 35% so I do not think there is a need to worry.

Priyam Khimawat: No Sir my question was not in terms of selling price it was more in terms of cost in terms of what is procure or timber.

Sanjay Agarwal: Yes, but the moment you see the more the chances are actually because of the 300 CBM there is a huge timber market so that will not increase the prices of timber too much it can



impact the prices in the market of our finished product temporarily I believe that, that is always usually a temporary thing when a new capacity comes in the other players are also little doubtful they want to secure their dealers and their share in the market. So everybody reacts a little bit by 1%, 0.5%, 2% here and there but it settles down in three months to six months time it settles down and it is okay.

Priyam Khimawat: Thanks a lot.

Moderator: Thank you. We have the next question from the line of Kushagra from Old Bridge Capital. Please go ahead.

Kushagra: Thanks for the opportunity. Just one question. So basically with related to your imports if you remove the container freight cost which has increased a lot how competitive would be the prices of domestic players versus let us say import prices and a related question is you also made a remark that the Indian players are becoming more and more efficient I just wanted to pick your thoughts on where is the better efficiency coming from because some of the largest players out there are basically 2x, 3x size in terms of MDF capacity is right there. So is not the economies of scale better for outside players versus...?

Sanjay Agarwal: Yes that is not a wrong thing at all but then you see yesterday's manufacturer like a Green who was manufacturing maybe 500, 600 cubic meters in North, today here there are 1000 cubic meter plant and he might be expanding to another so we will get 2000 cubic meter producer from 600 cubic meter is not it, then because of this market conditions now his cost of interest, his cost of operations everything is now going to go down or has already gone down. So all these things are going to help us and the prices, the prices are not going to be the prices like earlier prices. The prices are higher in the market. So at that time maybe the Imports were at \$220 to \$230 today and it is not available at even \$300 FOB that is why I believe that the both the sides you see will be becoming more efficient because our size is increasing we are understanding the business much, much, much, much better and I believe that the prices in the international market will not be go down to that level. So both sides we are going to have an advantage.

Kushagra: Got it and if we adjust for the container freight cost what would be the difference between the prices.

Sanjay Agarwal: I think container freight cost right now I do not have the numbers but at that time say three years back it used to be just \$25 per cubic meter and I think Keshav has some ideas. Keshav can you please.



- Keshav Bhajanka:** I think if you remove the container freight then the cost of production for us would be very similar to international players. So we are definitely very competitive.
- Kushagra:** Okay thanks and all the best.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we will take one last question from the line of Hrishikesh Bhagat from Kodak mutual Fund. Please go ahead.
- Hrishikesh Bhagat:** Congratulations on great performance. Few questions, firstly on the laminate capacity expansion what will be the timeline of this expansion that you have highlighted?
- Sanjay Agarwal:** In laminate there are two expansions are taking place the one press that we are adding in Calcutta which would commence within the course of the next two quarters. So that is going to be a capacity expansion of close to 14% to 15%. Regarding the South capacity we are expecting for that to commence production by Q2 of next financial year phase one.
- Hrishikesh Bhagat:** Second question is has there been any price correction undertaken post the recent commodity cost correction in any of the product categories.
- Sanjay Agarwal:** What do you mean by correction means lowering of the prices?
- Hrishikesh Bhagat:** Yes.
- Sanjay Agarwal:** We have increased prices in most of our items except MDF. MDF we have not increased it is stable and all other products we have taken, in plywood we have taken 2%, 3% and 7% for different products, in laminate also we have taken 3% to 4% in particleboard we have taken 9% there is no lowering down till now all these things will keep happening in some time in future we will have to reduce the prices at sometime.
- Hrishikesh Bhagat:** The other last question on the margin side I think I do not want the exact margin but what I wanted to understand is that on the current margin current quarter margins if I have to look at it from the point of view of non-recurring expenditure when I say non recurring from the point of view probably one or two years point of view it will be largely the ad spends which are above normal and is there a payment to consultancy also BCG engagement that we used to do in this current quarter numbers.
- Sanjay Agarwal:** You see right now BCG we are doing most payment is from the decorative portion the laminate side is happening most of the payments. We may engage BCGs in future for other things also, but then that will be again when they come. So when they come at that time



maybe there is some impact on the bottom line, but then we have seen and we are very, very convinced with their results. So that is a long-term gain only.

Hrishikesh Bhagat: It is not a question about whether you are gaining any benefit or not I understand you have gained the benefit but just wanted to understand from the point of view of normalized margins sure thank you.

Sanjay Agarwal: so Hrishi just to end this conversation you can safely assume a 11 Crores to 12 Crores which was spent on behalf of additional brand spend and BCG which adds up almost 1.5% to the total revenue which we posted in Q1.

Hrishikesh Bhagat: And this is I am talking more from one or two years perspective as and when if BCG engagement ends and probably this A&P spend normalize so you have these delivers internally from margin point of view and this increase and maybe the environment sustains.

Sanjay Agarwal: Right.

Hrishikesh Bhagat: Thanks.

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

Sanjay Agarwal: Thank you ladies and gentlemen for your questions and attending our Q1 call. We assured you that the management will be trying its best to do better and better in times to come. Thank you. See you during our next call after three months.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.