



Greenply Industries Limited

Q1-FY16 Earnings Conference Call Transcript

July 15, 2015

- Moderator** Ladies and Gentlemen, good day and welcome to the Q1 FY16 Earnings Conference Call of Greenply Industries. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.
- Gavin Desa:** Thank you. Good day everyone and thank you for joining us on the Q1 FY16 earnings conference call for Greenply Industries. We have with us today Mr. Shobhan Mittal – Joint Managing Director and CEO and Mr. V. Venkatramani – CFO. Before we begin, I would like to state that some of the statements made in today's discussion maybe forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q1 FY16 result presentation that has been send to you earlier. I would now invite Mr. Shobhan Mittal to begin the proceedings of the call.
- Shobhan Mittal:** Thank you Gavin. A very warm welcome to everyone present and thank you very much for joining us today to discuss the operating and financial performance of our company for the first quarter ending 30th June.
- The market has continued to remain challenging for us but we had posted a top-line growth closing at INR 380 crore for the first quarter which translates to a revenue growth of 15%, 9% growth was on account of plywood and 35% growth was on account of MDF which contributed to the 15% overall revenue growth. EBITDA margins had increased by 110 basis points standing at 14.7%. We had very strong performance in the MDF segment where EBITDA margins stood at 30% which has contributed to the overall EBITDA margin growth and PAT grew by 14.8%.
- We will continue to increase our distribution network going forward. We have launched a new advertising campaign to increase brand awareness and further penetration into the market. So we hope to have better performance over the coming three quarters in this financial year.
- I would now like to hand over the call to Mr. Venkat to take us through the financial highlights. Thank you.

V. Venkatramani:

Good afternoon friends. I thank you for taking out time to attend this call to discuss the Q1 numbers of Greenply Industries Limited. The results can be summarized as follows. We had a 15% growth in the top-line, 25% growth in EBITDA value. Profit before tax was up by 42% and profit after tax was up by 14.8% due to increase in effective tax rate to 26% from 8% in the year-on-year quarter. The highlight of the quarter was improved performance by the MDF segment. We had higher capacity utilization, strong improvement in realization and operating margins of 30% compared to 23% year-on-year quarter. The increase in operating margins was led by higher capacity utilizations at 92% compared to 72% in the corresponding quarter. Improvement in realization which was 4% year-on-year and 13% compared to the immediately preceding March quarter. A 40% increase in the volumes of the premium product the exterior grade MDF and a 50% growth in the volumes of decorative or the non-plain MDF segment. We also had superior conversion rate from wood to MDF because of the availability of dry timber before the onset of monsoon.

Considering the volumes we have achieved in the first quarter and the improved visibility for the remaining quarters, we are targeting a 100% capacity utilization for the current year. While our endeavor would be to maintain the high operating margins of the current quarter, we believe that long-term sustainable margin of 27% is achievable. We have also increased our network of laminate flooring by about 150 during the quarter and with this and further expansion in network during the remaining quarters we expect to increase volumes in flooring during the next three quarters. MDF is therefore on a strong footing and with the kind of visibility we have for the future we would expect to achieve a 27% operating margins and pre-tax ROCE of 30% for the current year.

Coming to the second segment plywood, plywood has not done as per our expectations in the current quarter. Top-line growth was in line with expectations since the first quarter is normally a lean one but margins have fallen compared to the year-on-year quarter. Going forward, we expect improvement in margins with launch of natural veneers which is a higher margin business. Volume is expected to improve for new launches like Defender Plywood and Green Gold Prima which will support both top-line growth and operating margins. We also expect demand to pick up in the second half of the year and thus overall improvement in capacity utilizations and increasing volumes from value added products should reflect in margin improvement. We would be targeting a 10% operating margins and 20% ROCE in the plywood segment for the current year.

To summarize, the plywood margins should improve based on the following assumptions. Launch of natural veneers, increase in volumes of value added products, improvement in the margins in Ecotec outsourced segment due to expected cost savings from supply of superior quality peeling machines to our outsourced vendors and the Myanmar Face Veneer operations which would be reflected in the annual results and would provide support both to the margins and PAT.

That concludes my presentation. Thank you very much. I would now request you to start the Q&A session.

Moderator:

Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nehal Shah from Antique Stock Broking. Please go ahead.

Nehal Shah:

Congratulations sir for a very-very strong set of numbers. Sir, one question on the MDF side to you, your margins this quarter has been phenomenal which has not been anticipated at least by the street, 30% is a huge number. So you are saying

sustainable margins could be in the region of 27%, is there any probability of margins improvement over here? I agree it is already moved to 30% because I suppose the price hikes have been taken in the month of May, so will we getting the full effect of that price hike for the next quarter for all the three months put together?

Shobhan Mittal: Yes. Well, see actually we got the price hike effect already in the previous quarter because in the MDF business we only give a 10 day notice period between the notice and actual implementation. So for the two solid months of May and June we have already enjoyed that price hike benefit. The reason for higher margins in the first quarter was of course because raw material costs were lower because of the low moisture content in the timber, also because of the ambient temperature being higher fuel costs tend to go down, but during the wet months, during the winter seasons fuel cost do tend to increase and the moisture in the incoming raw material tends to increase as well, so that does effect the raw material cost element of the production. So generally first quarter raw material costs are quite favorable compared to other quarters, that is why I would like to say that 30% is a very attractive target but 27% is a sustainable margin on a year-on-year basis.

Nehal Shah: Right. And sir, since you have been working very hard on the flooring business you have added a lot of dealers, so things are looking good even on that particular front which has amazing kind of realizations and margins. So if that achieves a good traction going forward over the next three, four quarters, can we see another scope of improvement in margin realizations going forward? Is there a possibility, I am not saying it will happen but is there a possibility?

Shobhan Mittal: Nehal, the flooring business yes, see actually the flooring business today is pretty much 95% dependent on imports and majority of that business is being generated by the builder segment. What we are trying to do is because it is a price challenge to be competing in that particular segment we are actually taking a different approach of going into the retail segment and developing a wooden flooring market in the retail segment through the 150-200 dealers that we wish to appoint by the end of this year. So at the moment we are really in the phase of infrastructural development and the development of the market. So as of this year we are expecting revenue of roughly INR 30 odd crore from the flooring side, so it is not a very substantial revenue expected this year because we are still in the process of developing the flooring market from a retail angle point of view.

Nehal Shah: Sure. But then next year could be much better right, in terms of scalability in the flooring business?

Shobhan Mittal: I would say we will really see the benefit of this in FY18.

Nehal Shah: FY18, okay, fair enough. And sir what kind of margins can we get in this kind of category?

V. Venkatramani: Nehal, it is a very small category and we are just in the beginning of the business, so I think it is too early to comment on the margins because a margin might be sustainable at a lower level of capacity utilization but if you want to increase volumes you might have to offer larger discounts. So I think we will wait for a full year of operations before we give any margin guidance for the flooring business.

Nehal Shah: Fair enough sir. Sir a couple of questions for you, one is the tax rate and other is, what kind of revenues and profitability can we expect from the Myanmar side and what is your sustainable tax rate since our tax rate has gone up substantially in this quarter to 26%?

- V. Venkatramani:** See Nehal it is very difficult to make an exact estimate of the tax rate for the full year because it would also depend on the ratio of profitability of units which enjoy tax exemptions and units which are fully taxable. So I think we will be somewhere in the bracket of 23% to 25% for the full year. And as regards Myanmar, I am sorry I cannot give any guidance, we have not published the results, the consolidated results, but I think based on the half yearly numbers of the last year we should have a strong performance at Myanmar.
- Moderator:** Thank you. The next question is from the line of Teena Virmani from Kotak Securities. Please go ahead.
- Teena Virmani:** Hi sir, my question is regarding the plywood scenario, because the volume growth is quite less in the quarter which is in line with the slowdown which we have been witnessing in the overall home improvement related products. By when can we expect this scenario to improve? This is the first question. And second question is regarding the margins which I will take later once you answer my first question.
- V. Venkatramani:** So regarding the volume growth, like we have guided for a volume growth of about 7% in plywood for the entire year which is based on assumption that the market would continue to remain challenging for a major part of the current year. So I think unless we see some improved visibility at the ground level, it would be difficult to increase our guidance for volume growth in the current year. But I think we should be targeting that 7% to 8% volume growth for the current year. But what we could be looking at is to improve the margins in the succeeding quarters.
- Teena Virmani:** But till now you have not seen any kind of signs or improvement in the volumes in the current quarter also like in the month of July itself also you have not seen any kind of improvement in the volumes for the plywood segment.
- V. Venkatramani:** Not really, we have not seen any kind of improvement in volumes but it is still very stage in the second quarter, so I think we will have a better visibility towards the end of August.
- Teena Virmani:** Yes, right. And regarding margins, you have mentioned that in the MDF segment you were positively benefitted by the low moisture content because monsoon was not there. But is it not applicable for the plywood segment also because of the low moisture content margins should ideally have improved but current quarter margins were lower in the plywood segment, so any specific reason?
- Shobhan Mittal:** No. See, basically in MDF the material purchase is based on weight and the consumption is also based on weight whereas in plywood it is based on volume. When it comes to volume then the moisture does not play a role because I mean in weight the content of water and the wood does play a role so the landed cost of pure wood varies based on how much water is in there based on the weight. But when it comes to volumes, a cubic meter of wood could have half water or it could be purely wood but we will be purchasing it based on volumes.
- Teena Virmani:** So what is the reason that the margins have come down in the plywood segment in the current quarter despite the fact that the realizations on an average had moved up by 3%? So is it mainly on account of the increased advertising?
- V. Venkatramani:** Yes, so if we compare it with the first quarter of last year, so we had launched some schemes for carpenters and sub-dealers which happened from Q2 onwards of last year. So if you have noticed the advertisement expenses have gone up in the first quarter as compared to the year ago quarter. So that was primary reason for the increase, otherwise if you look at it, raw material costs have been stable, so that's the primary reason, the increase in advertisement and promotion expenses.

- Teena Virmani:** Okay. So on a full year basis what kind of EBITDA margin can we expect in the plywood segment, around 10% - 11%, is it possible?
- V. Venkatramani:** I think we would be targeting that 10% operating margin for the current year.
- Teena Virmani:** For the full financial year?
- V. Venkatramani:** That's right.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithiyani from JP Morgan. Please go ahead.
- Gunjan Prithiyani:** Hi sir, I had couple of questions. Firstly on your plywood segment, would it be possible for us to give us some breakdown of how has Ecotec, the mid-range brand grown versus the premium brands? Because I remember last time you had mentioned that the premium market is actually de-grown.
- V. Venkatramani:** Yes, so if you look at the current quarter, Ecotec volumes have gone up by 40% whereas we had de-growth of 2% in manufactured segment.
- Gunjan Prithiyani:** Okay. And Ecotec could be how much of the total revenues now in 1Q?
- V. Venkatramani:** In quantity terms it is 30% of the total revenue and in value terms it is about 21% of the revenues.
- Gunjan Prithiyani:** Okay. And you mentioned that RM cost have remained stable so this you are saying basically from March quarter onwards there has been no change in the raw material cost for the plywood segment?
- V. Venkatramani:** That's correct.
- Gunjan Prithiyani:** And how have the prices trended for the plywood segment versus last quarter that is March?
- V. Venkatramani:** Prices have been the same but we are looking at a small price increase in the second quarter.
- Gunjan Prithiyani:** And usually, I mean we saw a significant price increase last year, I mean is there a scope for you to take more price increases now?
- V. Venkatramani:** See, last year the price increases were primarily on account of increase in raw material cost due to major increase in prices of face veneers. So we would not be taking as much price hikes as we did last year, so I think possibly our price hikes would be somewhere in the range of 4% for the current year.
- Gunjan Prithiyani:** 4% for the current year but then demand is so weak, do you think it will be possible to take that kind of price increase this year?
- V. Venkatramani:** See, this is primarily on account of the normal annual increase in overheads, so that happens across the industry whether it is Greenply or Centuryply. So I think if all the players increase prices that would be acceptable by the market.
- Gunjan Prithiyani:** Okay. And sir the ad campaign that you have launched is primarily been targeted at plywood, right?

- V. Venkatramani:** That's right. We do not have any ad campaigns for MDF which is primarily a commodity business in India.
- Gunjan Prithiyani:** Okay. And just moving to your MDF business, there has been a significant demand improvement for the last two three quarters. Now is there any improvement in the commercial segment that you have seen or is it just gaining more acceptance as a substitute for a low grade plywood? If you could just share some thoughts on that.
- Shobhan Mittal:** Gunjan, I will answer that. I would not say that the demand has increased substantially, what has of course helped is A, we have been able to get gain more market share from other producers by offering different grades of products that were not there in the product portfolio earlier. Also, we have been gaining market share from our second range of MDF which is the economical grade called Ecolite. So we have been able to penetrate the cheap segment of the plywood market with our Ecolite grade of MDF and also the fact that the plywood prices have increased in the past year due to the strain on raw material supply from Myanmar and the face prices increasing, that has also helped us equalize our pricing with the cheap plywood segment and gain market share there as well. So I would not say that the overall market size of the MDF or the demand has been growing that fast, we have been able to get a better market share from competitors and from the cheap plywood segment.
- Gunjan Prithiyani:** Okay. And has there been any meaningful change in the market share that you command in the industry right now versus what it was last year?
- Shobhan Mittal:** I would not say so, this may not be really measurable.
- Gunjan Prithiyani:** Okay. And lastly on your working capital, so that has increased in this quarter. Now is this because of demand being slow or is this because of increased competition that you have given more credit period or, I mean how do you see this changing?
- V. Venkatramani:** I would say it is more a function of the fact that sales were high in the month of June primarily because we have quarterly incentives for the dealers. So on a quarterly basis it's increased but if we look at it on an average basis I would say it is more or less what we had in the earlier quarter. So just because sales have increased significantly in the June month that is looking higher on an annual basis.
- Gunjan Prithiyani:** Okay. So this should normalize next quarter?
- V. Venkatramani:** True.
- Moderator:** Thank you. The next question from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.
- Jignesh Kamani:** Just want to check on the plywood side. Face veneer prices has corrected in the last three or four month?
- V. Venkatramani:** I did not get your question.
- Jignesh Kamani:** Sir if you take our face veneer price has increased in last year because of the ban on timber from Myanmar, now what is the current scenario of the face veneer price you can say in the last three to four month?
- V. Venkatramani:** It is more or less at the same level, so I do not think there has been any major correction in face veneer prices.

- Jignesh Kamani:** Okay. And do we expect any correction in the face veneer prices next one year?
- V. Venkatramani:** See, I won't have such a long visibility but I think there won't be any significant correction during the current year. Face veneer prices should be stable for the current year unless we see deterioration in demand.
- Jignesh Kamani:** Sure. In the last year since cheap plywood prices increased because of the higher face veneer price and MDF you can say get part of the market share from the cheap plywood. So is it possible that it might reverse partly this year if the face veneer price remains weak in the second half of the year?
- V. Venkatramani:** I do not think that would happen in the current year at least.
- Jignesh Kamani:** Sir in MDF how is dealer response towards Ecolite, MDF and other new product?
- Shobhan Mittal:** The response has been very-very encouraging. Of our total sales I think we are now close to 30% to 35% sales happening in that category.
- Jignesh Kamani:** It is a higher margin compared to normal because of the lower cost
- Shobhan Mittal:** It is over a year old, but of course we gained market acceptance which is slowly increasing.
- Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Sir my question is on face veneer, can you give us some quantification like what would be the external sales this year?
- V. Venkatramani:** We would not have any face veneer turnover since the Myanmar subsidiary is not consolidated in our accounts, only the profit element would be consolidated in the annual numbers. So we have a very small face veneer business in India, so I estimate that would probably be a top-line of around INR 15 crore for the full year.
- Ritesh Poladia:** Okay. So this would be almost like of the last year only?
- V. Venkatramani:** No, it would be lower than last year because last year our face veneer business in India was about INR 32 crore, so there would be a significant reduction, from INR 32 crore it will move down to about INR 15 crore during the current year.
- Ritesh Poladia:** But I believe we have a surplus capacity over there, so what would be the reason to reduce the external sales?
- V. Venkatramani:** See, like we had Gurjan Timber with us in the last year so we were peeling Gurjan during the period from April to October, but now that we do not have Gurjan Timber in India any more so we have significantly reduced our peeling operations.
- Ritesh Poladia:** Okay. So the market demand for the external face veneer will not be conducive as of now in India?
- V. Venkatramani:** Excuse me?
- Ritesh Poladia:** So you mean to say that the market demand in the face veneer in India will not be conducive and hence you would be reducing the turnover?

- V. Venkatramani:** It is for the Gurjan Face Veneer, so Gurjan Face Veneers are no longer manufactured in India.
- Ritesh Poladia:** Okay, I got it. Sir in the second question, for MDF even if we take 27% as a normalized margin, it is a substantial increase from FY15 of 23.3%. So sir what element would be there for increase in such kind of a margin? Is it because of the entire realization is passed on or is there any raw material reduction also?
- Shobhan Mittal:** Capacity utilizations would be primary.
- V. Venkatramani:** To an extent and also the fact that we implemented a 4% price hike without any increase in input cost that would be the primary reason for the increase in margins.
- Ritesh Poladia:** Okay, I got it. And in the last quarter that is Q4 the MDF capacity utilization was more than 100%, so is it fair to assume that even this year on full year basis can it go up?
- V. Venkatramani:** Like I mentioned we would be targeting 100% capacity utilization for the current year because demand continues to be a constraint. So I think we will continue to guide for 100% capacity utilization and endeavor to achieve a higher capacity utilization.
- Moderator:** The next question is from the line of Dhavan Shah from Indsec Securities. Please go ahead.
- Dhavan Shah:** I just wanted to understand the calculation for MDF segment, I mean when we go through the result presentation on slide number eight there is a sales volume of 34,727 Q1 FY15.
- V. Venkatramani:** Yes, there was a mistake, we will have that rectified. Actually the sales volume for Q1 FY15 should be 30,350 cubic meters.
- Dhavan Shah:** 30,350! So the volume growth has driven the revenue growth for MDF, right?
- Shobhan Mittal:** For the 30% volume growth.
- Moderator:** Thank you. The next question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.
- Anshuman Atri:** The question is regarding the MDF segment, now you have mentioned that there is a trend of readymade furniture being used in India, now there is a talk of IKEA setting up a facility in Andhra Pradesh and you are also setting up a plant in Andhra Pradesh. How will this segment grow going forward in the next one or two years?
- V. Venkatramani:** So you mentioned Andhra Pradesh plant, so let me clear that the Andhra Pradesh plant will start commercial production in FY2019, so for the current year and the next two years we would be continuing to depend on Uttarakhand plant for MDF business. So currently we are operating at about 90%, 92% capacity utilization and possibly the peak capacity utilizations could be somewhere around 115%, so our endeavor would be to achieve the peak capacity utilizations in FY18 before we start production at the new plant.
- Anshuman Atri:** Okay. And the second question is, looking at the trends of readymade furniture on MDF is there any plans going forward to get into readymade segments?

- V. Venkatramani:** No, we have no plans to get into the readymade furniture business.
- Anshuman Atri:** Okay. And this MDF, it is being targeting the readymade segment so will you be selling MDF on the retail basis or will it be on institutional side more?
- V. Venkatramani:** See we are primarily targeting retail sales, although many of the OEM manufacturers would be purchasing green panel MDF but we are primarily distributing MDF through a network of dealers and authorized stockiest.
- Anshuman Atri:** Okay. So can this be the reason why we will have better margins than others in this segment?
- V. Venkatramani:** That could be a possible reason.
- Moderator:** The next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.
- Achint Bhagat:** Firstly sir, I missed the point, when did you take the price hikes in MDF?
- Shobhan Mittal:** We implemented it around end of April, so I think it became effective in the first week of May.
- Achint Bhagat:** Okay, first week of May. And after this price hike what is the differential between your MDF Ecolite category vis-à-vis low quality ply that you say have been cannibalizing?
- Shobhan Mittal:** It was taken across all the product lines.
- Achint Bhagat:** Yes, so what is the difference between, so you mentioned in your earlier commentary that Ecolite has been cannibalizing the low quality ply, am I right to say that?
- Shobhan Mittal:** Yes.
- Achint Bhagat:** So what is the price difference now between both these products?
- Shobhan Mittal:** It is anywhere between 5% to 8% depending on the thicknesses.
- Achint Bhagat:** So 5% to 8% and this number earlier used to be?
- Shobhan Mittal:** From our regular grade MDF.
- Achint Bhagat:** No, no what I am getting at is the price of the ply vis-à-vis the MDF, the price difference is 5% to 8%, right?
- Shobhan Mittal:** No, no the 5% to 8% price difference is between our regular grade MDF and Ecolite.
- Achant Bhagat:** Yes, yes so that is one. The second bit is that the ply or the lower quality ply which this MDF is cannibalizing in the market, what is the price difference between these two products?
- Shobhan Mittal:** See, it varies, again, I think in certain cases the cheapest ply would be maybe cheaper than our Ecolite as well, because plywood is available in such a large

spectrum of pricing that it is not the cheap segment or let's say even the unorganized segment varies quite a bit.

Achint Bhagat: Okay. And sir one more question from the industry standpoint, in the last one year we have seen that the industry has gone through challenges in terms of procurement of raw material, etc., and because of that you have been taking price hikes, have you seen because of all of this that the unorganized segments competition is sort of waning because clearly it is waning in MDF, you said you are gaining market share there. So even in plywood are you seeing the unorganized becoming less and less relevant because what I would think.

Shobhan Mittal: Definitely because of the challenges of raw material supply there have been cases of the unorganized players either shutting shop completely or drastically reducing their production capacity. So they have been more adversely effected as opposed to the organized segment parse.

Achint Bhagat: So is it safe to say that if your volumes have grown by 8% the industry would have been flat or maybe declined by a few hundred basis points?

V. Venkatramani: I think that's a fair assumption.

Achint Bhagat: Okay. And the industry working capital cycle, I appreciate that your working capital cycle is a function of sales in June but has the industry working capital cycle in general stretched because of the weak demand because a sense that we are getting is that the channel is tough across categories whether it is ply, tile.

V. Venkatramani: I would not know exactly because we have just completed the quarter, so I think once we have the numbers from a few more organized players then we would have a sense of the working capital movement.

Achint Bhagat: Okay. And sir again the last question here on the industry being, are you seeing any sort of green shoots because the general view now is that the first two to three quarters will remain tepid and then volume growth will eventually pick up, but are you seeing any sort of green shoots in terms of real-estate prices either coming down or affordable housing picking up or commercial picking up which could possibly drive a demand recovery. I mean if there are a few catalysts that we as analysts should be tracking, what is that you are seeing now on ground which you think that could possibly drive a recovery from the fourth quarter onwards?

V. Venkatramani: So as far as the ground level is concerned then it would be challenging, I do not really think we are seeing any green shoots. So possibly mid-segment which is the largest segment of the plywood market, that's gaining traction and we are seeing a significantly improvement in volumes in the Ecotec category. But as regards the premium segment, growth continues to be a challenge.

Achint Bhagat: Okay. So basically it is market share gains that is driving your volume growth also basically?

V. Venkatramani: I think so, because we do not think unsold inventories are really coming down in the real-estate segment.

Achint Bhagat: Okay. And sir on your Myanmar capacity, now that you have your own manufacturing capacity in Myanmar, what is the difference in the cost of face veneer procurement that you have right now vis-à-vis what you had last year?

- V. Venkatramani:** It would be the same what we had because right from October last year we were getting supplies from Myanmar.
- Achint Bhagat:** Okay. So there has not been since post commissioning of your JV a significant reduction in cost of face veneer procurement, am I right to say that?
- V. Venkatramani:** Because since it is a JV, the sales to Greenply are almost similar to market prices, thus we have made small discount because Greenply purchases in large volumes but it is very close to market prices.
- Achint Bhagat:** So basically the JV gives you security, not cost advantage?
- V. Venkatramani:** That's correct.
- Achint Bhagat:** Okay. So just one last question if I can chip in here is, what is the margin, I mean I know that it will be difficult for you to give me the exact number but what is the rough cut margin that is made at the JV level in face veneer sales to Greenply?
- V. Venkatramani:** I think approximately about 25% to 27%, the operating margin.
- Achint Bhagat:** 25%, 27% operating margins on face veneer, okay.
- Moderator:** The next question is from the line of Pritesh Chhedda from Lucky Investment Managers. Please go ahead.
- Pritesh Chhedda:** Sir just a broad thought, looking at the growth in MDF and your commentary, is it fair to assume that the product mix and the revenue mix will change over the next couple of years and margins should move higher considering that and so should the ROCEs?
- V. Venkatramani:** It would depend on what kind of traction we are able to achieve in the value added products category because that still remains a very small part of the total MDF business.
- Pritesh Chhedda:** So even between MDF and plywood if the business swings in favor of MDF or there is higher growth in MDF over plywood then should the margins expand and so should the ROCEs expand?
- V. Venkatramani:** I do not think we will see a significant increase in proportion of MDF business as compared to plywood. If you look at the current structure, it is about 70% of the business comes from plywood and about 30% from MDF.
- Pritesh Chhedda:** But when you see the segment profits it is different, the segment profit is 40-60.
- V. Venkatramani:** Yes, the profit is different but profit is also a function of the top-line. So I am saying that currently the structure is around 70% of the business comes from plywood and about 30% from MDF. I do not think we will see a major change in this structure over the next couple of years because we are operating at possibly 20% discount to optimum capacity utilization in both the product categories. So I think while we will continue to see growth in both the businesses, you will not see a significant expansion in margins because MDF business would form a significantly higher part of the total business.
- Pritesh Chhedda:** But at least in profits it would, right, at the segment EBIT?

- V. Venkatramani:** That's evident, if we look at the last year numbers or the current quarter numbers that is evident because on one hand you have plywood which is generating operating margins of around 10% and MDF which is 30%. So I think yes, on the profitability level we are at almost similar level in both the businesses.
- Pritesh Chhedda:** Okay. And my second question is on the capacity MDF – if you exhaust your capacity over the next couple of years, the fresh capacity can only come in FY19 right?
- V. Venkatramani:** That's very true.
- Pritesh Chhedda:** And in plywood what can be the utilization over the rated capacity and when can the next capacity come?
- V. Venkatramani:** So I think the optimum capacity utilization would be around 120% to 125% for plywood and currently we are operating at about 95% capacity utilization. So we have scope for another 30% increase in capacity utilizations. The second lever is that currently about 15% of our production facilities are being used for manufacturing the mid-segment plywood. So once the demand picks up for the premium segment we would shift this mid-segment to the outsourcing category and further increase the volumes for the premium segment.
- Pritesh Chhedda:** Okay. And my last question is, the growth that you have seen so far, let us say in the first six months of this calendar year or let us say the first three months in this quarter for plywood, the market would have grown at that pace or market would have grown much slower than that number?
- V. Venkatramani:** Market would have grown much slower in both the categories.
- Pritesh Chhedda:** And can the deviation be as high as 50%?
- V. Venkatramani:** Possibly yes.
- Moderator:** The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Sir if I see the plywood NSR then it has gone up by 13%, so I believe the price hike was lesser so is the product mix also driven the higher end NSR in the segment on quarter-on-quarter basis.
- V. Venkatramani:** You are comparing to the March quarter?
- Bhavin Chedda:** Yes.
- V. Venkatramani:** Yes, so it could be.
- Bhavin Chedda:** So is there a product mix which was different.
- V. Venkatramani:** I would not say there has been significant increase in the mix of value added products but we have launched new products like Green Defender and Green Gold Prima which have received a good response in the market.
- Bhavin Chedda:** Okay. Because the YoY price has increased 4% so are you saying that MDF in last year second half had a price decline?

- V. Venkatramani:** Yes, it had because if we compare it to the realizations of the 4th Quarter, MDF has seen a 13% increase in realization in the current quarter.
- Bhavin Chedda:** So what I am trying to figure out is that since the price hike was also for two months only so actually over the last price, the price hike taken by you is close to 15%, right? Is my interpretation correct or the value added has gone up
- V. Venkatramani:** The realizations have been higher because like I mentioned we have seen a significant improvement in volumes for the non-plain MDF, that is the pre-laminated, veneered, and flooring MDF. So that has contributed to a significant improvement in realizations.
- Bhavin Chedda:** So actual hike over the last quarter price would be how much?
- V. Venkatramani:** It would be 4% only.
- Bhavin Chedda:** So rest is driven by the value addition component?
- V. Venkatramani:** That's correct.
- Bhavin Chedda:** So the value added component which is there in the quarter remains or improves further going forward right or this quarter had a higher value added component?
- V. Venkatramani:** It is very difficult to give guidance at the beginning of the year.
- Bhavin Chedda:** No, I am saying a general mix will remain in similar manner, right?
- Shobhan Mittal:** Not necessarily.
- Bhavin Chedda:** Okay, it has a seasonal impact or a demand impact in the MDF business?
- Shobhan Mittal:** No, I mean at certain times especially for pre-lam, we may get a very big project in a particular quarter, so these do not tend to happen every quarter for that matter. So we should be able to probably try and maintain it.
- Bhavin Chedda:** Okay. Because the guidance of 27% actually we are really positively surprised because in the past when we met and used to track this company the MDF business used to look like having operating margins even at optimum of 24-25% and now we are looking at 27% so what I am trying to analyze is that the component of value added pre-laminated products and flooring which is giving you much more confidence of 27% margin or the entire MDF business is now seeing a buoyancy even beyond our expectations say 12 months back?
- Shobhan Mittal:** Well, I think it is a mix of both, raw material prices have been favorable, we are looking to benefit from higher capacity utilizations, we are looking to benefit from better value mix within the MDF offering. So I think that is why we have projected such numbers for the MDF business.
- Bhavin Chedda:** Right, sure. And Venkat, what would be the CAPEX for this fiscal?
- V. Venkatramani:** CAPEX for this fiscal I would estimate somewhere around INR 25 crore to INR 30 crore, a very rough estimate.
- Bhavin Chedda:** This is normal, without considering a Greenfield project CAPEX?

- V. Venkatramani:** Yes, that's correct.
- Moderator:** The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.
- Anuj Sehgal:** I have a question on the plywood business, from a longer term perspective if you look at the last five years, while the revenues have grown at a CAGR of 14%, your EBIT is essentially flat in the plywood business. So what is your prognosis for the plywood business over the next three to five years? And you talked about the sustainable EBITDA margin of 10% that has come down from 13% to roughly 9% in fiscal 2015. What gives you the confidence that the margin can increase from here?
- V. Venkatramani:** I would say it is more a function that we are expecting an improvement in demand for the premium segment which contributes to the higher operating margins. So if you look at business over the past three years, the contribution of the outsourcing segment has increased considerably, so while it has led to an improvement in the ROCE margin for the business, it had a negative impact on the operating margins. But going forward we expect margins to improve both in manufactured plywood as well as the outsourcing segment, it should lead to an operating margins of approximately 10% for the current year and I think the optimum margins for this segment should be somewhere around 11% to 11.5% over a longer term.
- Moderator:** The next question is from the line of Sameer Tulsian from JM Financial. Please go ahead.
- Sameer Tulsian:** Just one question, like the way we are going in MDF we could reach the peak capacity utilization levels in a period of say 1-1.5 years. So what would be the company's strategy in the interim period till the new plant comes up?
- V. Venkatramani:** Yes, I think we could see that possibility happening because we would be targeting a capacity utilization of 100% for the current year and 110% for FY17. So the scope for volume growth in MDF would be lower in FY18, so I think we would continue to focus on value additions both in the exterior grade MDF and also the decorative segment of MDF to improve top-line and margins.
- Sameer Tulsian:** Okay. So 100% utilization for the current year would mean a volume growth of around only 10% to 13%, correct?
- V. Venkatramani:** That's correct.
- Moderator:** The next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.
- Achint Bhagat:** Yes sir, just one maintenance question. When will your MDF CAPEX begin, when will you start incurring CAPEX in the expansion, from which year onwards?
- Shobhan Mittal:** Major CAPEX would start happening next financial year.
- Achint Bhagat:** And what is the broad split of '17, '18, '19 in CAPEX that you are looking at?
- V. Venkatramani:** See, I think we could have some vendor payments in the current year which could be in the range of approximately INR 50 crore to INR 60 crore and possibly another INR 100 to 120 crore in FY17. Our estimates are that the bulk of the capital expenditure would happen in FY18 which could be in the range of about INR 350 crore and the balance in FY19.

- Achint Bhagat:** After this, so based on what you have told us it is somewhere about INR 500 crore till FY18 and over and above that another INR 50 crore in FY19?
- V. Venkatramani:** Overall it is approximately about INR 100 crore in FY19.
- Achint Bhagat:** So overall INR 600 crore capital commitment?
- Shobhan Mittal:** That's right.
- Achint Bhagat:** Okay. And what is the split between debt and equity of this, how much are you expecting from internal generation and how much will you need to take on from the bank?
- V. Venkatramani:** See, we have not really finalized that but I think a rough estimate would be 50% debt and 50% internal accrual.
- Achint Bhagat:** Internal accrual?
- V. Venkatramani:** Yes.
- Moderator:** Thank you. The next question is from the line of Vishal Gajwani from Birla Sun Life. Please go ahead.
- Vishal Gajwani:** I joined in late, so a couple of questions might be repetitive. First, you mentioned 12% volume growth for MDF for FY16, right?
- V. Venkatramani:** 10%.
- Vishal Gajwani:** 10%, okay. And what kind of free cash flow generation will happen for this year and the couple of coming years?
- V. Venkatramani:** I think we would have a free cash generation of approximately INR 125 crore to INR 130 crore which should be more or less similar for this year and the next financial year.
- Vishal Gajwani:** By free cash flow I mean after incurring CAPEX for MDF.
- V. Venkatramani:** That's difficult to figure, I think if I estimate that we would be spending approximately INR 50 crore for the new MDF expansion so that would possibly leave us free cash flow of approximately about INR 75 crore odd in the current year. I think we would not have any free cash flows beyond MDF CAPEX next year where payouts could be in the range of INR 125 crore to 130 crore.
- Vishal Gajwani:** Okay. And what is the kind of existing capacity and what is the new capacity, so if you can give those numbers.
- V. Venkatramani:** So our existing capacity is 1,80,000 cubic meters per annum and new facility will have a capacity of 3,60,000 cubic meters.
- Vishal Gajwani:** Okay sir, so you are increasing the capacity by 3x actually from the current levels.
- V. Venkatramani:** That's right.

- Vishal Gajwani:** Will you be also able to share that this 3.6 lakhs ton capacity, what is the time horizon for reaching sufficient utilization, let's say 90%, will it be achieved in the next three years after coming on stream?
- V. Venkatramani:** Definitely, I think so we would be able to achieve that within say 2 to 2.5 years of commencement of operations.
- Vishal Gajwani:** And I believe you are one of the very few ones who is putting MDF capacity, what is your current market share here?
- V. Venkatramani:** Our market share would be close to 30%.
- Vishal Gajwani:** And how will it move let's say five years from now, are other people also incurring MDF CAPEX?
- V. Venkatramani:** We have not had any official confirmations of fresh MDF capacities in India, it would be very difficult to estimate our market share five years down the line because we do not know what would be the size of the MDF business in India at that point of time and whether new vendors could step in before that. So assuming that we would not have any further entrants in the MDF business in India for the next five years, so our market share should climb to about somewhere around 40% to 45%.
- Vishal Gajwani:** Okay. Right now your market share is 30%, out of the remaining 70% how much is imported?
- V. Venkatramani:** Approximately 35% to 40% is imported.
- Vishal Gajwani:** Of the total is imported?
- V. Venkatramani:** That's right.
- Vishal Gajwani:** So in terms of buy versus import decision, what is the benefit of having your own manufacturing capacity rather than importing?
- Shobhan Mittal:** Well, with regards to imports the problem is that India is never considered as a lucrative market for the producers, India is a dumping ground for these guys and when lucrative markets like Japan or Korea tend to improve, demand there goes up, they tend to stop supplies to India. So also quality consistency is a big concern with imports. So that is why as a manufacturer, as a manufacturing company we cannot depend on a trading model for MDF.
- Vishal Gajwani:** Okay. And in terms of landed cost of imports and your manufacturing cost, what is the difference between the two?
- Shobhan Mittal:** Well, it would also vary, the reason why we want to set up a plant in the South of India is because of the freight element. Close to 12% of our sales price is the freight cost today to send product from our Uttaranchal plant to the South of India. And it works vice-versa for them, if the imports have to transport from the port to the North of India they become more expensive. So the whole idea behind setting up a plant in the South of India is to gain on that freight element and to be able to compete more strongly with the imports coming into the South of India.
- Vishal Gajwani:** Right. So once you have this South plant up and running, what is the cost price difference or cost difference between landed imported price and your manufacturing cost?

- Shobhan Mittal:** Well, I would say we would be fairly competitive with the imports and of course with imports it is also dependent on the dollar value, etc., there is a lot of foreign currency, their own conversion costs also keep changing, their own exchange rates against the dollar also keeps varying. So there are a lot of fluctuations when it comes to the cost of imports, there is antidumping involved as well.
- Vishal Gajwani:** How much is the antidumping rate?
- Shobhan Mittal:** Well, it varies from company-to-company and country-to-country, there is a compete policy where they have defined different rates for different companies and if the companies are not covered then the countries they are located in are covered. So it varies anywhere between \$290, \$300 going up to \$400, \$420.
- Moderator:** The next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta:** Sir in your plywood revenues for the quarter, can you split it up between own manufactured revenues and outsourced?
- V. Venkatramani:** So if we look at the volumes, 70% of the volumes come from manufactured plywood and 30% from outsourced and if we look at it on a value basis 78% comes from manufactured plywood and 22% from outsourced plywood.
- Rohan Gupta:** Okay. And in terms of margin difference, what will be between these two?
- V. Venkatramani:** About 200 basis points.
- Rohan Gupta:** In manufacturing you will be having higher?
- V. Venkatramani:** That's correct.
- Rohan Gupta:** So sir if you are seeing that higher-end segment is struggling for growth and there is a lot of opportunity probably in middle-end segment, so are you not looking outsourcing as a liquidity of opportunity because that probably requires less investment and even at a lower margin ultimately your ROCE in that business will be better?
- V. Venkatramani:** Yes, I think so. We are focused on improving the volumes in the outsourcing segment so if we look at last year we improved volumes to about 34% and even during the current quarter we have improved volumes by 40% in the outsourced segment. So going forward our focus will continue to be on improving volumes in the outsourced segment.
- Rohan Gupta:** Okay. So sir that means in plywood now as a business strategy over the next four to five years do you think that you need not to put any further money and the more growth will be catered through outsourcing?
- V. Venkatramani:** I think we will not be putting any significant CAPEX in the plywood division, there could always be some small CAPEX for improvement in product mix or improvements in the value mix, but we will not be doing any significant Greenfield expansion.
- Rohan Gupta:** So sir if I understand outsourcing right, so it is just selling under your own brand and procuring it from the nearby market, right?

- V. Venkatramani:** No, like we have about six vendors in India and two vendors in China who are supplying their products produced, so it is marketed under secondary brand called Ecotec and not under the flagship brand of Greenply.
- Rohan Gupta:** So you will continue to procure from these sources only, you will not procure it from the local manufacturers there and will sell under your Ecolite brand?
- V. Venkatramani:** That's what we are doing, I said we are purchasing from about six manufacturers in India and two in China and going forward we will be increasing the number of outsourced vendors.
- Rohan Gupta:** Correct. So in terms of that there will be also added advantage in terms of lower transportation and lower working capital requirement?
- V. Venkatramani:** Yes, like our outsourced vendors are spread across different geographies, even in India we have we have vendors in East, West, South, and North.
- Rohan Gupta:** So in this middle-end segment where we are competing probably with the local manufacturer or the local player there or unbranded player, what sort of price difference is there in the market?
- V. Venkatramani:** The price difference between Greenply and the outsourced segment?
- Rohan Gupta:** No, not in that, in middle-end segment between with the local players with whom you are competing.
- V. Venkatramani:** Okay. So yes, there would be a price difference of about 15% to 20%.
- Rohan Gupta:** 15% to 20% and what sort of margin difference will be with the dealers, I mean this local players will be offering higher margins to the dealers?
- V. Venkatramani:** Yes, definitely. Like we offer about 6% to 8% margin for the dealers whereas they would be earning at least 15% from the unorganized segment.
- Rohan Gupta:** And you offer 5% to 6%?
- V. Venkatramani:** 6% to 8%.
- Rohan Gupta:** 6% to 8% versus 15% by unorganized.
- V. Venkatramani:** Right.
- Rohan Gupta:** So sir this unorganized must be having some sort of cost advantage, what are those cost advantage which they are enjoying?
- V. Venkatramani:** So it is basically that they do not pay the due share of duties, taxes and employee benefits, so that's the only advantage they have.
- Rohan Gupta:** That's the only advantage, while they will be having the disadvantageous position in terms of raw material right?
- V. Venkatramani:** They would have disadvantages in terms of raw materials, in terms of capacity utilizations, in terms of product mix. So the only advantage they have is in reducing their tax burdens.

- Rohan Gupta:** Okay. And in this segment, in middle segment what do you think that you are having market share in overall market?
- V. Venkatramani:** See, we are a very small proportion of the market, so like I think we would be targeting a turnover of about INR 300 crore from the mid-segment for the current year whereas the mid-segment market would be approximately about INR 8000 crore.
- Rohan Gupta:** So our target is INR 300 crore only?
- V. Venkatramani:** For the current year, that's right.
- Rohan Gupta:** Out of total INR 8000 crore you said?
- V. Venkatramani:** Yes, so roughly only 4% of the total market.
- Rohan Gupta:** Okay. And our strategy to penetrate this market is higher spend and creating brand awareness and advertising?
- V. Venkatramani:** It is basically that the consumers have the choice of buying from an established company like Greenply which has backup service responsibility to the consumers instead of buying from an unorganized manufacture who would not be providing any backup service or quality assurance. So that is the only advantage here.
- Rohan Gupta:** Okay. And sir what will be the price difference between your own manufactured that is high-end brand and your own brand in middle segment?
- V. Venkatramani:** 40%.
- Moderator:** The next question is from the line of Tejas Sheth from Reliance Mutual Fund. Please go ahead.
- Tejas Sheth:** I just have two questions. One, I think during the call you mentioned that the market would have grown at a much slower rate than what you have grown in the plywood segment. Now going forward would not the competitors be providing a higher margin and hence we can face margin compression? As well as there could be some working capital deterioration in the balance nine months so as competitors will provide better payment terms to the dealers.
- V. Venkatramani:** See regarding the margins, we are working on ways and means to improve the margins, so we are basically working on different fronts which I mentioned during the course of the call – one was the launch of the natural veneers business which is higher margin business compared to the regular plywood, increase in the volumes of the value added products which launched in the last quarter like Defender Plywood and Green Gold Prima, improvement in the margins in the Ecotec outsourced segment due to cost saving benefits being passed on to us by the vendors since we have provided them with superior quality peeling machines. And the last point would be the Myanmar face veneer operations, the results of which would be consolidated in the annual numbers. So these are the steps and also the expansion in the dealer network which you are working on, so these steps should help us to improve the margins over the next few quarters. But you are right, to some extent there could be further pressures on working capital, but our efforts would be to improve the margins and reduce the working capital investment which has gone up in the first quarter, even if it means growing at a slower pace over the next few quarters.

- Tejas Sheth:** Okay, fine sir. And my second question pertains to your MDF, we have grown at 30% volume in this quarter and you are guiding for 10% volume growth for the whole year. So YoY basis we are expecting deterioration in volumes?
- Shobhan Mittal:** Yes, if we look at it last year in the first quarter we had a very low base effect, our capacity utilizations were around 72% in the first quarter whereas it was about 90% for the full year. So that's why it was guiding for a volume growth of 10% because we expect capacity utilizations to increase to 100% during the current year.
- Tejas Sheth:** Is there any further scope for increasing MDF realizations?
- Shobhan Mittal:** Realization wise I do not think there would be any price hikes in the current year.
- V. Venkatramani:** So our focus would be on to improve the volumes in this segment.
- Tejas Sheth:** Okay. So on value basis we may grow 15%, 11% from volume and 4% from realizations?
- V. Venkatramani:** Yes, I think that's a possibility.
- Moderator:** The next question is from the line of Manish Manwani from Bonanza Portfolio Limited. Please go ahead.
- Manish Manwani:** Sir do you have any plan for acquisition or for inorganic growth because it reduced competition and also the time that you build your own capacity and all?
- V. Venkatramani:** See, I think we have sufficient capacities in both the product categories for the next couple of years, so we are not looking at any fresh expansion or inorganic growth except the expansion in Andhra Pradesh for a new MDF plant.
- Manish Manwani:** Okay sir. And my one question is sir and the recent change in Uniply Industry, if you have heard the name, it is after Greenply, Centuryply, the Uniply comes at number three, the management change in Uniply has set aggressive targets to achieving the benchmark of Greenply and Centuryply. So are you seeing any potential competition from that side?
- V. Venkatramani:** See, Uniply has always been a strong competitor primarily in the Southern belt, so I think they will continue to provide strong competition in that zone.
- Manish Manwani:** No, I mean after management change over there, I am just asking about that?
- V. Venkatramani:** See, I think it will take some time for the new management to pick traction because they are new in the plywood business, so I think it will take some time for them to really increase the size of the business. I don't know what capacities they are operating at currently, but if they were to look at expanding capacity I think that would be a time consuming task.
- Manish Manwani:** Okay. Because recently they are at 40% of capacity utilization, so it is a huge gap for Uniply.
- V. Venkatramani:** Yes, if they are operating at 50% capacity utilization then they have a lot of surplus capacity, that's correct.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

- Kamlesh Kotak:** Sir just wanted to check, I do not know whether you have addressed this concern or not, how much of our revenue for MDF comes from B2B and B2C retail and institutional, if you can share some numbers?
- Shobhan Mittal:** Well, as Mr. Venkat said we are primarily working through the retail channel only, we have negligible sale to direct institutions or to direct business, it is a very small percentage that is being sold to OEM manufacturers of furniture. But we tend to refrain from doing direct institutional or B2B business because of payment concerns and long credit period involved, so we tend to route the business through our retailers and distribution partners.
- Kamlesh Kotak:** But as we see that you have more of acceptance of MDF and the ready to use furniture, don't you think with our increased capacity we have to move towards that channel as well going forward once our new plant capacity is in?
- Shobhan Mittal:** Well, at the moment the furniture market, a majority of it is imported for that matter, so there is not a very large volume going into the readymade furniture segment anyways. And of course the option is always available to us, in case we see a crunch of demand or surplus capacity that requires us to do direct sales on a B2B basis or to institutions, we are obviously open to that.
- Kamlesh Kotak:** But in that case our margins or working capital profile will change significantly, is it?
- Shobhan Mittal:** Yes, it could.
- Kamlesh Kotak:** Okay. And as our capacity is still to come, is there any option for us to outsource MDF part also maybe through import channel, is it something which we are looking at in the interim?
- Shobhan Mittal:** No, we would not like to do that because we have a certain quality that has been accepted in the market and the same cannot be met through imported products because we would not like to disturb the market by providing inconsistent quality products from the imports.
- Manish Manwani:** Okay. And we do not want to enter into that retailing or making of furniture as a forward integration, anytime once we have that business.
- Shobhan Mittal:** There is no plan as such.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over the management for their closing comments.
- Shobhan Mittal:** Thank you. So thanks everyone, we appreciate your time and we look forward to speaking to you again during the next quarter. Thank you very much.
- V. Venkatramani:** Thank you very much.
- Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on Behalf of Greenply Industries that concludes this conference call. Thank you for joining us and you may now disconnect your line.