



Greenply Industries Q3 and Nine Months' FY16 Earnings Conference Call Transcript January 19, 2016

- Moderator** Good Day, Ladies and Gentlemen, and welcome to the Q3 and Nine Months' FY16 Earnings Conference Call for 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 this 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 Q3 and Nine Months 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 in the result presentation that has been sent to you earlier. I would now invite Mr. Shobhan Mittal to begin the proceedings of this call.
- Shobhan Mittal:** Good evening everyone. I welcome everyone to this call. We will of course have a Q&A session post our presentation and I would like to hand over the call to Mr. Venkatramani now who will run through the business highlights and the numbers, post which we can do the Q&A session. Thank you.
- V. Venkatramani:** Good afternoon friends. A very warm welcome to everyone present and thank you very much for joining us to discuss the financial performance of the company for the quarter ended 31st December, 2015.
- We have delivered a stable performance in a continuing sluggish environment. During the quarter the company delivered a top-line growth of 8% on a year-on-year basis. Plywood has grown at approximately 4.5% and MDF has shown a stronger growth rate at 15%. Wallpaper, our newest offering is gradually gaining acceptance and has contributed approximately close to ₹ 2 crore to the top-line in this quarter. Our performance is a result of various corporate initiatives some of which I will elaborate briefly on. Our continuing endeavor has been towards enhancing our product mix, this has enabled us to improve our gross margins in Q3 FY16 by 190 basis points at 44.3%. The improved performance can also be



attributable to the change in mix, the proportion of MDF is gradually increasing and has gone up from 28% in Q2 FY16 to 31% in the current quarter which has enabled an improved performance for the company.

We continue to invest in building our brand and maintaining a strong market share. Our ad expenditure to sales in the current quarter was 3.7%, an increase of 48.5% which has helped in improving the brand recall. Operating margins EBITDA were higher by about 260 basis points at 15.3%. Capacity utilizations in plywood was slightly lower at 97%, however MDF utilization was strong at 111%. Profit before tax for the quarter has improved by 47.1% and PAT by 35% owing to increased tax rates as the Nagaland factory has come out of tax exemption in the current year.

We are continuing to work on improving the brand and also strengthen the distribution range across both plywood and MDF segments. And we will continue to work on improving the working capital, reducing the working capital investment, the working capital investment has increased by about eight days year-on-year and seven days QonQ due to disproportionately higher sales in the month of December due to weaker demand in October and November due to the festival season. And the debt to equity at 0.47 continues to show improvement compared to 0.77 in the corresponding year-on-year quarter.

Volumes have improved; volumes in plywood have grown by about 6% in the current year and about 10% in MDF. And we will continue to work on improving the capacity utilization in both the product segments and also improving the product mix to ensure that operating margins continue to show improvement in the next financial year.

That concludes my presentation. I take this opportunity to wish you all a very happy, healthy and prosperous new year 2016. And request you to start the question-and-answer session. Thank you.

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 Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar:

Very broad question on the industry, to understand that one of your competitors Centuryply is coming up with its MDF capacity had a cost that is significantly lower than us, if memory serves me right I think they recorded CAPEX about ₹ 240 crore for a 600 cubic meter MDF capacity. I just wanted to understand the reasons for divergence in the quantum of our CAPEX and theirs and if there might be a case for us to reconsider our vendors because they have begun to understand sourcing from China as against us whom are sourcing from Europe, so just a broad thought on that sir.

Shobhan Mittal:

See like you rightly said, firstly Century is claiming a rated capacity of about 500 to 600 cubic meters, but the biggest principle difference is that it is a plant out of China. Now rated capacity is one thing but what also boils down to is the cost of production of that capacity, as well as the uptime as well as the reliability of the plant and the flexibility of the products that can be produced. So there is a lot of things which differ when it is a Chinese plant as opposed to European line. If you look at when we made the investment in our Rudrapur plant we were also at that 270, 280 level for a 600 cubic meter line. But I would not say it is a fare comparison to compare the Chinese production line against the European one. And we have had good experience with the European vendor, we are seeing that

in terms of capacity utilizations and uptime, so we would not like to reconsider our decision of going with the European line because we truly believe in the technology. And also in the long run the cost of production is substantially different compared to plant on a Chinese land.

Baidik Sarkar: So going forward if you could just help us, the ₹ 600 crore CAPEX that you are coming up for the MDF plant how much is the cost of land, what is the land component in this ₹ 600 crore again?

V. Venkatramani: Land cost will be approximately ₹ 40 crore and also I would like to give you an update on the overall CAPEX, because when we looked at that ₹ 600 crore to 650 crore this was way back in 2012, so we are updating our numbers and I think the process will be completed by March. But I think it is fair to say at this point that the CAPEX will be closer to ₹ 700 crore than ₹ 600 or 650 crore.

Baidik Sarkar: Sir and last question, we breached the 100% capacity utilization threshold in our MDF segment, so how does that set us up for FY17, are we looking at a level which is more or less equal to FY16 because given that we would be out of capacity for the entire year FY17?

Shobhan Mittal: I think on a yearly basis if we look at the full FY16 numbers I think we should be close to 98% to 100% capacity utilization. But as you can see in quarter three we were able to enhance that up to 111%, 112% and we have always maintained in the past that this plant with the right product mix and with the right way of running it we can go up to about 115% capacity utilization. So we still have room for growth in this existing plant. So what we foresee is that if we are looking at an FY19 start of the new plant so there might be a vacuum of one year where we might have some capacity limitations which would be FY18.

Baidik Sarkar: So Q4 has typically been our strongest quarter right, I mean does that still hold good for this year as well?

Shobhan Mittal: Sorry, can you repeat that.

Baidik Sarkar: Q4 has typically been our strongest quarter, right? I am just wondering if that thesis still holds good for this financial year as well.

Shobhan Mittal: We would not like to get into the crystal ball magic, but yes traditionally Q4 has been a strong quarter and we hope that we will continue to perform well in this quarter.

Moderator: Thank you. Our next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: On the MDF side, if you remember in Q1 con-call when we reported our highest operating margins of close to 30% in MDF, we missed part of the margin because you can say the MDF weight is on the dry weight and since weather was dry our raw material cost was on a favorable side. But if you take about third quarter, even after monsoon where the moisture content will be there in the wood our margin was pretty healthy. So it is more to do with input scenario or a product mix?

- V. Venkatramani:** On outset because of higher capacity utilization I think honestly I did not think we would have close to 110% capacity utilization in Q3. So I think it is because of higher capacity utilization that we had healthy margin in Q3.
- Jignesh Kamani:** So this would be sustainable kind of margin going forward?
- V. Venkatramani:** Yes, I hope so. I think if we are able to maintain the capacity utilization which would again depend on selling the product in the market we should be able to hold the margins.
- Jignesh Kamani:** And second thing you mentioned that demand improved a lot in December compared to October, November, so what is current scenario, do you think this trend which we witnessed in the December continues currently also or it is still there?
- V. Venkatramani:** Again, I do not think so, I think the environment continues to be challenging, demand is at a premium. While I hope that we will have a stronger quarter in Q4 then Q3 I think it is based more on tradition and past experience than any significant improvement in the ground conditions.
- Jignesh Kamani:** And in the plywood have we or our competitor taken any price cut and what is the level of price cut by the unorganized player in plywood?
- Shobhan Mittal:** We have not taken any price cuts, but I would like to clear two things. We have schemes for dealers, sub-dealers, retailers and carpenters which I think has impacted the realization, that is one thing. And secondly, our sale of blockboards was lower in this quarter which has also contribution to our lower realization.
- Moderator:** Thank you. Our next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** Yes sir, my question is on your plywood business, as of the current product sales volume how much is coming from the outsourcing thing currently?
- Shobhan Mittal:** So currently about 30% of our volumes are coming from outsourcing.
- Manish Ostwal:** So could you highlight the earning differential or margin profile differential outside the sourced model versus in-house production?
- Shobhan Mittal:** Sure. Like I said the outsourcing contributes about 30% in volumes terms and it contributes about 28% in value terms, and if you look at margin, yes margins in outsourcing are lower than the manufactured, so I would guess they would be about 150 to 200 basis points lower than the manufactured plywood margins. Just to give you an example, if margins in the manufactured segment are about 9.5% margins in the outsourced segment would be somewhere between 7.5% to 8%.
- Manish Ostwal:** And secondly in MDF side next year what capacity, could you repeat that number, capacity expansion CAPEX plan for MDF segment?
- V. Venkatramani:** So if we look at the existing capacity, we have a 180,000 cubic meters capacity and like Mr. Shobhan Mittal mentioned we expect to have a capacity utilization of somewhere between 95% to 100% overall for FY16 and we would be targeting a capacity utilization of about 110% in FY17. Regarding the new MDF plant, we

propose to set up a new MDF plant in Andhra Pradesh where we have already acquired land and where the capacity will be 360,000 cubic meters, that is twice the existing capacity.

Manish Ostwal: And CAPEX for the same?

V. Venkatramani: We have not yet finalized the numbers but I think it will be slightly above ₹ 700 crore, we expect to finalize the numbers by the end of March.

Manish Ostwal: And lastly in terms of your demand scenario both from the rural center to the urban center, how the trends materially compared to the first two quarters for there is no change?

V. Venkatramani: See as far as rural is concerned, our contribution would be very-very low, I think it would be less than 2% of our overall business. And as far as urban is concerned, we are seeing changes every quarter, so it would be very difficult to give you a categorical answer that we are seeing improvement in this region or that region. So we are seeing some improvement in some regions and a decline in other parts, but it is changing every month and every quarter.

Manish Ostwal: In terms of key regions any material change in the region per say sir?

V. Venkatramani: No, not really.

Manish Ostwal: And last point on ad spend side, currently we are spending around 3% of net sales, so since we are focusing more on brand and expanding our brand presence, so any target on that number?

V. Venkatramani: I think we will continue to spend around that same percentage because as the top-line grows our expenditure will increase in value terms, but we do not propose to increase it in percentage terms.

Moderator: Thank you. Our next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the margins, so how do you expect it to be going forward?

V. Venkatramani: It is very difficult to forecast the margins because ultimately it will depend on what top-lines we are able to achieve in the coming quarters. So I think if we are able to have the current level of capacity utilizations and current value of top-line sales we would be able to maintain margins because we are not seeing any increase in raw material prices. So if you are able to maintain a top-line I think you will be able to maintain our margins.

Anshuman Atri: And is it possible to quantify the benefits of all the raw material backward integration which is being undertaken by Greenply?

V. Venkatramani: So we are not getting any benefits of that currently because that is a long-term project, I think those benefits will start flowing to the company after seven or eight years, so nothing currently.

Anshuman Atri: And the JV which we have in Myanmar, so are there any other JVs which we have planned?

V. Venkatramani: No, we are not planning anything else and this is basically to provide raw material security for our plywood business. So I do not think we are considering any other expansions in plywood at the moment.

Anshuman Atri: And one question is on the demand side, so what is your exposure to the south region and what was the impact of these unseasonal rains on your business?

V. Venkatramani: I do not think there has been a major impact, although I think because our warehouse was outside the city limits and it was on a higher level so it was not impacted by the floods and overall the turnover did not drop significantly in the southern parts during the current quarter. So I do not really know whether it will be impacted in the current quarter but no it did not have any significant impact in the last quarter.

Anshuman Atri: And one last question is on what kind of demand you are expecting in say FY17 or is it too early?

Shobhan Mittal: I think it is too early, I think we will have to take it quarter-by-quarter for the moment.

Moderator: Thank you. Our next question is from the line of Samir Tulshan from JM Financial. Please go ahead.

Samir Tulshan: Sir volume on the plywood side continues to be slow and sir I wanted to know can we see any pickup there going ahead? And the growth which we are seeing currently is it coming more from Ecotec or can we see some more traction coming?

Shobhan Mittal: No, if we look at the current quarter I think we have seen higher growth on the manufacturing side, but it is also partly due to the fact that we have shifted some products in the Ecotec category from outsourcing to manufacture like again in Ecotec there are two broad divisions, boiling water resistant and commercial or MR ply. So we are now manufacturing BWR Ecotec ply in our own facilities which has contributed to some volume growth in the manufactured plywood business and if you look at the numbers I think we have seen a lower volume growth in the Ecotec category in this quarter.

Samir Tulshan: And like our average realization if we see on a quarter-on-quarter basis it has improved by 2%, 3%, so how should we understand that?

Shobhan Mittal: If you look at our realizations for the quarter as compared to the year-on-year quarter I think it has dipped by about 1%.

Samir Tulshan: So it is all driven by product mix, like are we planning for any price hikes or...?

V. Venkatramani: At the moment no, I think our focus will be on achieving improved capacity utilizations, if the fourth quarter goes well then possibly we could look at a price increase next year, but I think that would be too early to take a position on at the moment. I think our focus will continue to be on achieving better capacity utilizations at the moment.

- Samir Tulshan:** On the MDF side, like you are saying recently good volume growth of around 10%, so do we see this growth momentum to continue?
- V. Venkatramani:** I really cannot comment on that because yes MDF we have been facing relatively lower competition because other than Greenply there are only four MDF manufacturers in India and it is relatively stable and organized competition. But whether we will be able to generate the required number of orders
- Samir Tulshan:** No, have we seen any benefit coming from the position of anti-dumping duty?
- V. Venkatramani:** Not really, not in this quarter, I do not think we have seen any benefits of that in the current quarter.
- Samir Tulshan:** So that might also come?
- V. Venkatramani:** It might, but I do not really know whether it will have any immediate impact in the short-term. But I think yes we can expect some benefits in the coming quarters, whether it will happen in the current quarter or the next few quarters that is to be seen.
- Samir Tulshan:** And how do we see the wallpaper business, like has a small revenue right now of Rs.19 million, Rs.20 million, so how do we see it going ahead?
- V. Venkatramani:** I think we will see a slow and steady growth because we are also simultaneously building up network for the product. But yes I am expecting that if we are able to build reasonable volumes we should see a strong performance from this segment in future because at the moment gross margins I would say are reasonably good. And we have just started this business so at the moment employee cost contributes a significant portion to the overall cost and if volumes increase we should be able to achieve better margins in this business.
- Samir Tulshan:** So do we have any kind of revenue number in mind for this business, like from ₹ 20 million to where it can go?
- V. Venkatramani:** See, we have a long-term target, I think I mentioned that we are looking at about ₹ 200 crore by FY2020, but I think it will be like I mentioned a slow and steady growth, we would be targeting about ₹ 30 crore to ₹ 40 crore in the next financial year.
- Samir Tulshan:** And in working capital we know like the debtor days have increased, so are we seeing it coming down in the current quarter like Jan right now?
- V. Venkatramani:** We have given a strong message to the sales team that this needs to be done, but again it will depend on what top-line we achieve in this quarter. So if we have a higher top-line than Q3, I do not think we will see any significant improvement in the debtor days. But yes, if we do not have a strong top-line growth in the quarter I think we should definitely see a reduction in the debtor days.
- Moderator:** Thank you. Our next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Sir what was the plywood industry and MDF industry in terms of volume growth number in the first nine months

V. Venkatramani: Actually I do not have those numbers because I have not yet interacted with the sales team post this quarter.

Bhavin Chheda: And MDF if you have that number.

V. Venkatramani: No, we really do not have, so I will interact with both the sales teams during the next couple of days and give you those numbers.

Bhavin Chheda: And just I missed on the earlier part, MDF is European line thumb rule CAPEX versus the Chinese how much is the difference in the equipment cost for the similar capacity?

Shobhan Mittal: Bhavin actually it is very hard to do a comparison like that because the size of line that we are putting in Andhra Pradesh is not available from a Chinese producer which would result in having to set up multiple lines to reach that capacity.

Bhavin Chheda: So normally the Chinese lines are what sizes?

Shobhan Mittal: The Chinese lines, if it is a continuous press which I think Century is going for, I think they have not produced, in fact I would say like the press that Century would buy there is maybe one of them existing outside of China and there is maybe three or four of them within China. So it is not very comfortable, for us it would not be a very comfortable decision to go for something that is so new and so untested. And I do not think that they would have a line that produced more than 600, in fact this is all experimental in a way because the continuous press is being produced in China only for the past year, year and a half, it is a very-very new scenario for them.

Bhavin Chheda: So your old line is like 180,000 CBM, right?

Shobhan Mittal: Correct.

Bhavin Chheda: So a similar line Chinese equipment what would be the cost, I just wanted...

Shobhan Mittal: That is what Century is installing, a similar line.

Bhavin Chheda: Which is ₹ 200 crore?

Shobhan Mittal: They have mentioned ₹ 240 crore.

Bhavin Chheda: And that capacity would be around 180,000 to 200,000 CBM kind of a thing?

Shobhan Mittal: So just to give you an indication, when we set up the first MDF plant in Uttarakhand we had invested about ₹ 270-odd crore for a similar capacity, but I think if we would install a similar capacity then possibly cost would be more like ₹ 375 crore to ₹ 400 crore today.

Bhavin Chheda: European line similar would be ₹ 375 to 400?

Shobhan Mittal: There would be about 30% difference at least I would say.

Bhavin Chheda: So you are saying that a similar equipment cost have gone up in last four, five years?

Shobhan Mittal: Naturally.

V. Venkatramani: Definitely, when we bought this line, just to give you an indication, Euro was about 58 and now it is about 73, so that in itself has driven cost upward significantly.

Bhavin Chheda: Because everywhere else we are seeing equipment cost, deflation factor and all that and the growth environment has slowdown, so I was wondering why would the capital cost increase

V. Venkatramani: The machine supplier today I mean would be selling at prices below that in 2008, I doubt that, because when we bought our line it was in 2008.

Bhavin Chheda: And this new line you said next year how much you would be spending on the same?

V. Venkatramani: Very difficult at the moment, but I think I had given an indication in the last con-call that we would be spending approximately ₹ 50 crore in the current year and about ₹ 100 crore to 150 crore in the next financial year.

Bhavin Chheda: And the land cost ₹ 40 crore is already spent in the past, this was in FY15?

V. Venkatramani: It was about ₹ 20 crore in FY15 and another ₹ 20 crore in the current year which we completed before 30th September.

Bhavin Chheda: So the ₹ 50 crore includes 20 land cost this year?

V. Venkatramani: That is true.

Bhavin Chheda: And what would be the maintenance CAPEX?

V. Venkatramani: Maintenance CAPEX, I think we would be looking at about ₹ 10 crore to ₹ 15 crore on an annual basis for the next two, three years.

Bhavin Chheda: And sir as you said your in-house production margins of plywood are almost like 180, 200 bps higher than the Ecotec but I am assuming because there is a general slowdown in the market so the demand for the lower price mass market product is much more and you are taking away market share from unorganized segment. Because if I see quarter-on-quarter numbers your production volume in-house de-growth has reduced considerably, so are you seeing some traction in the luxury segment?

V. Venkatramani: We have seen volume growth in the manufactured plywood segment but a part of that is also attributable to the fact that we have shifted some products in the Ecotec category from outsourcing to manufacturing.

Bhavin Chheda: No, if I see your production volumes it is still 3% YoY decline, so still it is de-growing, right?

V. Venkatramani: Yes, definitely. If we compare to last year we are de-growing.

- Bhavin Chheda:** But as compared to 10% de-growth in quarter two the YoY number has come down, so my assumption was that there is some kind of demand returning in the luxury segment, but you said that it is the low volume brand which you have shifted to your own manufacturing.
- V. Venkatramani:** It is a mix of both, we have seen some improvement in the premium segment in this quarter but what I mentioned was like if we remove the trading element from the plywood business so we have seen 8% volume growth in this quarter, so I would say about 3.5% of this 8% would be attributable to the fact that you have shifted some products from trading to manufacturing and the balance 4.5% would be attributable to increase in the premium category.
- Bhavin Chheda:** And the other question is, since your MDF business has been doing so well so has part of the growth in the MDF cannibalized the plywood sales or do you interpret or analyze that data how much has been cannibalized?
- Shobhan Mittal:** No, at a level where Ecotec and Greenply is we are far from cannibalizing that with the MDF business at the moment because at that level there is not much of conversion happening at all because it is a completely different segment of clients. So I do not think our MDF business is reflecting the Ecotec or the Greenply business. Where we are really maybe making an affect is really the low end plywood and the unorganized segment.
- Moderator:** Thank you. Our next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.
- Kamlesh Kotak:** My question is about MDF business, we have the capacity utilization at almost 98%, so we are expected to close the year with 100% utilization. Next year even if we get this kind of a growth I think FY18 as you mentioned there will be vacuum, will it be substantial to cap growth on the MDF side or is there any alternative arrangement we could have in terms of outsourcing?
- Shobhan Mittal:** No, outsourcing does not work in MDF because you cannot get the full category of products, you do not get all the thicknesses that you require to do a proper marketing, you do not get the required number of designs in pre-laminated MDF and supplies are also irregular, you cannot really do a consistent business depending upon outsourcing. So I think if there is good demand for MDF in 2018 we may not be able to really get the benefit of that. I do not think outsourcing will work in MDF.
- Kamlesh Kotak:** So at best what could be the volume we could achieve at the current plant?
- Shobhan Mittal:** So like I said, our target for the next year would be about 110%. And at the moment I think we are confident of achieving our capacity utilization of 115% if we have a consistent flow or orders and the mix of products that we require for achieving this kind of capacity utilization. So at the moment I would say that possibly we could have a peak capacity utilization of 115% in FY18.
- Kamlesh Kotak:** Which means if the demand comes beyond that we will be seriously short of the capacity?
- Shobhan Mittal:** Yes, that is definite possibility.

Kamlesh Kotak: And secondly, at our new plant you said capacities of how much?

Shobhan Mittal: 360,000 cubic meters.

Kamlesh Kotak: That is...?

Shobhan Mittal: Twice the current plant.

Kamlesh Kotak: So that is based on how many working days you are taking sir?

Shobhan Mittal: 300 days.

Kamlesh Kotak: So it is 1,200 CBM per day?

Shobhan Mittal: That is correct.

Kamlesh Kotak: And you stated that the cost will go up, so what could be the rationale, is it because of the currency factor?

Shobhan Mittal: It is a mix of different factors, so I think it is also some cost going up on the vendor side and also the currency, so it is a mix of different factors. And while we looked at it in 2012 we thought that we would be able to cap the CAPEX cost somewhere between ₹ 600 crore to ₹ 650 crore but now that we are interacting with the different vendors I think we will settle at somewhere between ₹ 700 to 730 crore.

Kamlesh Kotak: And sir about plywood business could you get the breakup between the mid-sized that outsourced market and this volume in terms of the overall growth for the quarter and the nine months?

Shobhan Mittal: So in this quarter we have again achieved, if you look at volumes we have achieved sales of 3.55 million square meters in outsourcing and 8.25 in manufacturing, so overall sales have been 11.8 million square meters. That means the trading segment is contributing 30% in volume terms and 22% in value terms.

Kamlesh Kotak: And could you have the same numbers last year same quarter sir?

Shobhan Mittal: So in volume terms it was 3.42 out of 11.05 and in value terms again it was 22%, because realizations have not really changed in any of the segments whether it is manufacturing or trading. So yes, trading continues to contribute 22% to the plywood top-line.

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

Achint Bhagat: Sir firstly on the overall industry, you mentioned that demand has slightly improved and alongside that even your working capital is stretched, so is the channel still filled or you are seeing that the channel inventory has started receding?

Shobhan Mittal: I do not think the channel has been maintaining a high level of inventory, so I think if we look at our dealers most of them would be maintaining inventories between two to three weeks which is significantly lower than the past. So I do not think there is any significant increase in inventory at the dealers end.

Achint Bhagat: And how have your touch points changed in this year vis-à-vis last year, have you been able to enter into markets which you were not catering to till last year?

Shobhan Mittal: I would not say there has been significant increase in geographical locations, but yes we have been able to increase the number of dealer touch points in both the business. So we have had about 70, 80 dealers in the plywood business and about 150 in MDF including those for the new product laminated flooring.

Achint Bhagat: Which means that 70%, 80% increase would mean close to a 10% increase over last year in terms of number of dealers?

Shobhan Mittal: That is true.

Achint Bhagat: But sir what is the barrier to entry in terms of entering into new geographies, since you mentioned that there are multiple regions in which you still do not have that strong distribution presence. So in a market when it is weak why is the company not able to expand distribution in places which are not already catered to?

Shobhan Mittal: See, I would not really be able to give you a detailed explanation on that account, I will have to interact with the marketing team, so give me some time, I will get back to you on this.

Achint Bhagat: Sir the next question is in terms of the cost of face veneer procurement, so now what is the landed cost for you, I presume that there has been some increase in royalty also in Myanmar.

Shobhan Mittal: Yes.

Achint Bhagat: So what is the landed cost of face veneer?

Shobhan Mittal: So it went up by about 6% post the increase in royalty, but then again there was a slight dip because we could not get the benefit of the appreciating dollar since plywood demand is at a premium in the domestic market, so dollar inflation could not be sustained and we had to pass on the currency benefits to the consumers. So overall I would say yes it has been about 4% increase in the last quarter.

Achint Bhagat: So what would that number be in terms of dollars per CBM?

Shobhan Mittal: I do not really recall dollars per CBM, but yes I remember it was about close to 4% over the previous quarter.

Achint Bhagat: Sir another related question to this, is the cost comparable to the previous regime in which you were importing wood into India and then converting it into face veneer, so including the logistics is the end cost the same or has there been an increase compared to it?

Shobhan Mittal: No, there has been a significant increase.

Achint Bhagat: Oh, there has been a significant increase, is it?

Shobhan Mittal: Definitely, yes.

Achint Bhagat: And the smaller players, how are they getting because they do not have any JVs there.

Shobhan Mittal: I would say they are purchasing either from Greenply or Centuryply or some of the other manufacturers in Myanmar.

Achint Bhagat: And for them also the cost would have gone up sharply?

Shobhan Mittal: Yes, definitely.

Achint Bhagat: So the last question is that you have been mentioning about your MDF expansion for some time now and it seems that the earliest that it will be available to you will be end of FY18, early FY19. So just wanted to understand why will it take, so is it like a normal procedure that it takes so much time or you guys are expanding slowly

Shobhan Mittal: No, it is not that we are expanding slowly, if you look at the time frame for our last project as well, even if I leave out the accident that had happened with one of the machineries it is quite normal to have a timeframe of about 24 months because we have just sort of finalized the contract in December and the delivery date itself is November from Germany, so by the time it reaches site would be close to January next year. So these are pretty normal timeframes for such large lines or for a continuous MDF line. So 24 to 30 months is a fairly normal timeframe I would say, especially considering the Indian condition, if we were in Europe where we have experienced contractors with multiple lines maybe this could be squeezed by four to five months. Because it is a capital intensive plant, I would say it is a pretty heavy industry kind of an installation.

Achint Bhagat: So was just trying to get a handle on that, is it that you guys want to purposely take it

Shobhan Mittal: No, no it is fully industry standard I would say.

Achint Bhagat: And the last bit is on Chinese competition, so I assume that they are still about 40% of the overall market.

Shobhan Mittal: You mean imports, not Chinese?

Achint Bhagat: Imports, yes. And after the anti-dumping duty that is being levied do you think that their competitiveness is completely going to be washed out or you think that they are still comparative?

Shobhan Mittal: See actually the thing is I have not seen a very huge difference because anti-dumping has been implemented on three or four countries, so what has happened is majority of the demand has moved to other countries, like Vietnam and Indonesia are completely out of the anti-dumping scenario today and a majority of the volumes coming for MDF is from these two countries now. Same way, a lot of people are circumventing the anti-dumping policy through malpractices, what they are doing is Thailand for example has anti-dumping on thick panels but not on thin panels. So what people are doing is because mostly imports happen as a combination of thin and thick panels so people are increasing the value on thick panels and getting that benefit on thin panels by onion washing that. So there have

been a lot of ways that people are circumventing the anti-dumping, so I would not say that there has been a very substantial benefit from the anti-dumping.

Achint Bhagat: And your current market share in MDF is close to 25%?

V. Venkatramani: We would say somewhere between 25% to 30%.

Achint Bhagat: So I was just trying to understand that if the market size in India today is about ₹ 130 crore, ₹ 140 crore and given that your capacity will triple

Shobhan Mittal: No, you mean to say ₹ 1,300 crore or ₹ 1,400 crore?

Achint Bhagat: Yes, ₹ 1,400 crore and your capacities by end of 2019 will triple from here on. Do you think that given that imports are also a major part you will be able to utilize this capacity, can the industry absorb so much of capacity?

Shobhan Mittal: Well, we are not saying that we will reach 100% capacity with domestic production in the very first year itself. What we are saying is we would slowly and slowly gradually increase capacity for the domestic market, but what we also keep in mind is that we are very-very close to a port in Andhra Pradesh, Chennai is about 200 kilometer and Krishnapatnam is about 80 kilometers from our site. So any additional capacity that is not absorbed in the domestic market would be allocated for the export market for that matter because of course the realizations are lower in the export market but on a marginal costing basis there is still a contribution. So the idea is to completely utilize capacity in a mix of domestic and international market. But as and when the domestic industry grows we would start converting the export market sale to the domestic market.

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

Gunjan Prithyani: Just following-up on the MDF segment, so we have seen growth improving in the last couple of quarters and we are also now incurring a huge CAPEX and capacity expansion in that segment. So firstly, what has led to this improvement in MDF, is it the commercial real-estate starting to do better or readymade furniture gaining more acceptance, what has changed significantly in the industry? And given we are now doing such a huge CAPEX commitment in this segment how are we looking at demand trends changing over the next couple of years?

Shobhan Mittal: See firstly, enhancement of capacities in the past year has been due to multiple factors, firstly the MDF market has grown not at the same growth rate as our utilizations have but it has grown because even the foreign exchange rates have gone up so there has been a little bit of inclination towards domestic products as well. And secondly more importantly, is that there has been substantial conversion from the unorganized and cheap domestic plywood market which is a very-very price conscious market and because of the high cost of raw materials and the dollar going up their input costs have gone up substantially which has resulted in a conversion and a shift from the plywood usage to MDF usage by a lot of the customers which has also contributed to the growth in the MDF segment.

Gunjan Prithyani: But is this a demand which you would call as a sustainable demand, I mean this is dependent a lot on the price fluctuations in the plywood segment. So I mean usually MDF what I, maybe my understanding is wrong, but MDF usually the biggest target segment for you guys is commercial real-estate or if at all the

readymade furniture gains acceptance in India then that can be a huge demand generator for this segment. But right now what MDF is banking on is basically the price increases that the plywood segment has seen that is why MDF has become more competitive. But if there is any volatility in the plywood segment which we have seen in the past or if there are any price cuts in the plywood segment then MDF demand could again get moderated. So I just want to get your thoughts, is this a sustainable demand?

Shobhan Mittal: So if you look at our new capacity this will come on stream sometime during FY19, and we will be looking at increasing the capacity utilization through a mix of different initiatives. Firstly we will be able to enter the export markets because of vicinity to the ports at Krishnapatnam and Chennai. Both the Middle East and Southeast Asia consume a substantial quantum of MDF. So I think in the initial years at least the first three to four years we would be looking at exporting a substantial quantum of MDF. Secondly, we will be looking at reduced imports of MDF into the country. At the moment we are unable to compete in Southern India because we are based in Uttarakhand so the freight from Uttarakhand to southern parts is currently about 13% of the selling price. So once we have the plant in Andhra Pradesh the freight will reduce from about 13% to somewhere around 3% to 4% which would enable us to effectively compete with imports. And third part is, we will also be looking to increase our reach in South India. So at the moment most of our sales to South India are of the exterior grade MDF because that is not produced by any other manufacturer in India. But once we have the plant in Andhra Pradesh and like I mentioned we would be able to offer different products at a competitive pricing I think we will be able to take a large volume of market share from imports as well as local producers in Southern India.

Gunjan Prithyani: I mean right now I think you mentioned it is about 40%, what this used to be couple of years back, maybe three or five years back?

Shobhan Mittal: About 65% at that point of time, imports as a percentage of the total, yes.

Gunjan Prithyani: About three years back?

Shobhan Mittal: I would say closer to five years back when we set up the current MDF plant. So at that time domestic was about 32%, 35% and imports were about 65% to 70%.

Gunjan Prithyani: And you mentioned about exports, so will we be competitive enough with the other markets if we have to look at exporting MDF?

Shobhan Mittal: Definitely, like I said at the moment we cannot compete in export markets because being located in the central part of the country freight from Uttarakhand to Mumbai port is prohibitively expensive, so once we are located close to the port we would be able to compete effectively with any other manufacturer in Asia.

Gunjan Prithyani: And in terms of competition is there anyone else besides you and Century who is increasing the capacity significantly over the next couple of years, from the organized players?

Shobhan Mittal: At the moment there is no concrete information about that, at the moment it is ourselves, Centuryply has very different plans.

Gunjan Prithyani: Secondly, my question is on the plywood segment, so two things, firstly, we have been mentioning our targets of reaching outsourcing to 30% which I think we have

now reached and we are running at about 97%, 98% in terms of capacity utilization. Now of course the demand trends are fairly muted but let's say if demand improves next year, we are already at a 97% capacity utilization, we do not have any CAPEX plan in that segment, so how do we address any demand improvement in that segment over the next two years? I am assuming even if you look at capacity expansion next year it will take you about two years to get that on-stream.

Shobhan Mittal: So two factors I would like to mention here, one is the outsourcing target, you have mentioned that we have reached 30%, we have reached 30% in volume terms but our targets are to reach 30% in value terms. Because when we said this target of 30% our trading turnover was about 18% in value terms and I said targets would be to reach 30% in value terms. So at the moment we are about 22% in value terms, so I think we still have some distance to go before we achieve this target. And secondly utilizations at the plant, in the past we have achieved capacity utilizations of about 118% with a steady flow of orders and currently we are operating up to about somewhere between 95% to 100%. So we have about 15% to 20% additional capacity available at the plant in case demand improves over the next few quarters.

Gunjan Prithyani: And how much time does it take for new capacities to come on-stream in case of plywood?

Shobhan Mittal: I think that is a hypothetical question, we are not looking at any expansion in the plywood segment.

Gunjan Prithyani: And lastly on the margins of the plywood segment, now we are looking at the mid end of brand is growing faster and where you mentioned outsourcing where you mentioned that the margins are about 150 to 200 basis points lower, so if that segment grows more then how do we see the margins changing for this segment?

Shobhan Mittal: See I think at optimum utilization of our plants and mix of outsourcing that we mentioned, our targets would be to achieve plywood margin of about 10.5% to 11%.

Gunjan Prithyani: This is EBITDA margin?

Shobhan Mittal: EBITDA margin, from the current 9.36% in this quarter.

Gunjan Prithyani: And what would be the guidance for MDF segment on the margin front?

Shobhan Mittal: Very difficult, I think we are close to peak margins, so maybe a few more basis points if we have better capacity utilizations, but I think we are close to the peak.

Moderator: Thank you. Our next question is from the line of Vinay Karpe from Zen Advisors. Please go ahead.

Vinay Karpe: Greenply has done a very nice job in such a weak economic condition here in India, sir my question was, are there any new big capacities coming up into the plywood and MDF segment from your competition, and particularly MDF because the margins are very high?

Shobhan Mittal: Century has announced plans to set up MDF capacity in Punjab with a capacity of 180,000 cubic meters which is our current capacity at Uttarakhand, but other than that we have not heard of any fresh expansions either in plywood or MDF.

Vinay Karpe: My next question is, how will the experience of running a MDF plant help us in building and running a new plant in Andhra Pradesh?

Shobhan Mittal: It will definitely help us because we did make some mistakes in the first plan which I think we will not be repeating in the new plant. So I think definitely we should have a better performance at the new plant in the initial years then we had at the first plant.

Vinay Karpe: Sir my next question is, we are spending somewhere close to 3% to 3.5% on marketing, right?

Shobhan Mittal: That is correct.

Vinay Karpe: Sir, we had gone for TV commercial a few months back as you had mentioned sir, sir are we not going for more TV commercials because lately I have not seen any TV commercial of Greenply on TV.

Shobhan Mittal: I think we should have something in the first quarter of next year, I do not know whether it will be a new commercial or the current one but I think we will have some TV marketing in the first quarter of next year for plywood.

Vinay Karpe: So this cost that we have made that is 3.5%, are these below the line which are not on TV?

Shobhan Mittal: We had TV ads in the first half, but this 3.5% is a combination of both ATL and BTL activities.

Vinay Karpe: And sir have we tied up for funds with banks for the new MDF plant?

Shobhan Mittal: At the moment we have not yet finalized the plant, but yes we will be doing a substantial part of the borrowing in Germany because most of the machinery will be imported from Germany. So there we have tied up with a German bank who will be financing a significant part of the total debt.

Vinay Karpe: And will our good credit rating help us over there sir, we do have a good credit rating, right?

Shobhan Mittal: I think yes it will definitely help us, we should be able to borrow close to the best rates.

Vinay Karpe: And sir has the slowdown helped us to negotiate better with our vendors for the given MDF plant?

Shobhan Mittal: Unfortunately the slowdown has not affected the vendors, last year seems to be their record year of sales not only for India but I am saying worldwide. So internationally it seems that the MDF and particle board market has picked up because if you look at our vendor last year was actually the record year of number of line sold.

Vinay Karpe: And how has our Floormax business done and how is it different from our sisters, the Mikasa Greenlam?

Shobhan Mittal: So Mikasa is involved in engineered floor or three layered flooring which is a real wood flooring which is catering to a very high end segment of the market, whereas Floormax is producing the laminated flooring, the regular wood flooring that you see most builders use and most commercial spaces use.

Vinay Karpe: So how has Floormax done sir in terms of sales according to expectations?

Shobhan Mittal: Well, see we faced tremendous challenges from imports in that segment so at the moment we are at about I would say we are doing roughly about anywhere between 1 crores to 1.25 crores average sales on a monthly basis.

Vinay Karpe: And how are the raw materials available in Andhra Pradesh where we are setting up the plant?

Shobhan Mittal: That is not a matter of concern at the moment and there has been substantial plantation activities going on in Andhra Pradesh which will become available in three to four years' time as well.

Vinay Karpe: And sir the scale at which that we are putting up the plant in Andhra Pradesh, the scale is very-very large as compared to our current front, so will the scale of production help us over there in reducing our cost of production?

Shobhan Mittal: See, it should help us to a certain extent because the fixed overhead cost is not such a large percentage in MDF production. So there would be certain benefits for sure in terms of manpower, etc., but I mean the majority of the cost comes from raw materials or manufacturing cost which would continue to be almost similar on a per unit basis.

Moderator: Thank you. Our next question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mithul Mehta: Sir just one broad question, we are putting up this new MDF plant thinking that we will be able to penetrate better in the southern market and it will be closer to port so therefore we will be able to export also. Can you just help us to understand as to how much tonnage of MDF is being absorbed by the southern market and why this market is so important for you?

Shobhan Mittal: See I would say as a country today at least more than 40% to 45% of the total market would be in the south, maybe close to even 50% of the total MDF market is in the south. Because MDF if you look at per capita consumption of MDF I would say the highest per capita consumption of MDF in India today is the southern market.

Mithul Mehta: In terms of volume, India as a whole how much we are absorbing considering the imports also?

Shobhan Mittal: We may be close to about 1700 to 1800 cubic meters. About 550,000 cubic meters annually.

Mithul Mehta: And out of this about 40% is south?

V. Venkatramani: I would say slightly higher than that.

Mithul Mehta: So this entire 40% is imports or these are locally manufactured MDF suppliers?

Shobhan Mittal: See I would say the majority of the industrial grade product which is the regular grade product is still dependent on imports which are the bread and butter of the market. The high grade product which is the exterior grade is still being serviced by the domestic players like us and Action.

Mithul Mehta: And what is the price differential between the two?

Shobhan Mittal: About 25%.

Mithul Mehta: Our capacity will be more on the industrial or exterior or both?

Shobhan Mittal: No, the capacity does not differ really.

Mithul Mehta: But it is fungible?

Shobhan Mittal: Yes, we can either chose to produce this or that depending on the demand of the market, it is a different resin that is used to produce exterior grade.

Mithul Mehta: And what is the debt-equity for this project?

V. Venkatramani: So at the moment debt-equity is slightly below 0.5, so I think possibly at peak we should be somewhere close to 1:1.

Mithul Mehta: And when do we break the ground for this project?

V. Venkatramani: We will start construction in the next financial year, so I think somewhere in the first quarter we will start construction activities in Andhra Pradesh.

Mithul Mehta: What is the timeline?

V. Venkatramani: We expect to start commercial production in FY19, so I think the targets we have announced is somewhere around September to October 2018.

Mithul Mehta: And sir if you can just help us to understand, between all the regions which region is growing the fastest for the MDF?

V. Venkatramani: So like Shobhan mentioned that south is the largest market for MDF, but if we look at it from a Greenply viewpoint, I would say north is the biggest market for us because more than 50% of our current production is currently sold in Northern India. So for us the breakup is somewhere like this: About 50% in Northern India, 30% in Southern India, about 10% in Western India and the balance 5% in Eastern India.

Mithul Mehta: And in south we are currently not present at all?

V. Venkatramani: We have a 30%, I mean we are selling 30% in Southern India currently.

Mithul Mehta: So sir my last question, there is capacity going to be available to us in FY19, like two years away from here, and you said that we have some capacity for the plywood business, about 15% to 20%, on the MDF side we seem to be fully utilized.

V. Venkatramani: Not really, if you look at the current financial year we are currently at about 97%, 98% capacity utilization and I think possibly the peak capacity utilization would be somewhere around 115%. So we still have about 15% in hand for the next couple of years.

Mithul Mehta: Which means you will have 15% to 18% in plywood as well as 15% to 18% in MDF?

Shobhan Mittal: Yes, that is for two financial years.

Mithul Mehta: And is there a scope for further improvement in product mix on the plywood side?

Shobhan Mittal: Yes, there is definitely scope for improving the product mix, we would be looking at achieving higher sales in the premium category like Greenply Defender, Greenply Readylines, Greenply Club and also the decorative section comprising of teak veneers, natural veneers and artificial diet veneers. So this could help us to improve the margins in the plywood segment.

Mithul Mehta: So apart from this 700 crores CAPEX the basic maintenance CAPEX will be hardly, so this is the major block that we would be funding, right?

V. Venkatramani: That is true, and like I mentioned we would be having approximately 10 crores to 15 crores of maintenance CAPEX on an annual basis.

Mithul Mehta: So when you say 1:1 which means we will have to incur 350 crores of our own equity?

V. Venkatramani: Not really, like I said our capital cost could be somewhere around 700 crores to 730 crores. So I think we will be looking at 60:40 mix of debt and internal accruals.

Mithul Mehta: 60:40?

V. Venkatramani: Yes.

Mithul Mehta: The debt syndication is done already?

V. Venkatramani: No, like I mentioned the majority of the debt will be raised in Germany, so I think at least 80% of the overall debt will be raised in Germany and that we have tied up with a German Bank.

Mithul Mehta: And we are going to keep this entire debt open or how do we...?

V. Venkatramani: See we will have to keep it open at least for the first few years because we cannot take a forward cover till the entire debt is disbursed, so I think we will take a call once we complete the disbursement say by the end of FY18 or sometime in FY19.

Mithul Mehta: And what sort of export number you would be looking at from this plant, I mean just to get some sense on the mix?

V. Venkatramani: So in the initial years I think say approximately we will be looking at a 65:35 ratio of domestic and exports.

Mithul Mehta: And the realizations are better in exports?

V. Venkatramani: It is lower in exports.

Mithul Mehta: But the margins would be similar to the current margins, right?

V. Venkatramani: No, it would be lower margins in exports, and like Shobhan mentioned that while our focus would be on the domestic markets we would be definitely have to do some exports in the initial years to have a reasonable degree of capacity utilization.

Mithul Mehta: Sir last question, you did mention geographically how much of MDF north consumes, in volume terms as an industry what sort of growth MDF is growing at?

V. Venkatramani: I think volume growth would be somewhere around 10% to 12% and overall growth would be about 15%.

Moderator: Thank you. Our next question is from the line of Gaurav Nagori from Spark Capital. Please go ahead.

Girish Chaudhry: Hi sir, this is Girish Chaudhry from Spark. Sir, on the new MDF plant again, what are the incentives do we have from Andhra Pradesh in terms of any tax incentives or any other?

Shobhan Mittal: The Andhra Pradesh Government has a fairly standardized industrial promotion policy and they have just revised that in the last financial year. But we fall under what is called a mega project category, anything above and beyond 500 crores of investment falls under a mega project category. So apart from the standard we are in the position of making customized and tailored demand from the state government and then they go through a state level committee which sits and assesses them and decides whether or not that would be granted. But there are certain amount of incentives that we can get, although they are capped at on an amount basis. So on a standard basis there is not a very substantial amount of incentives that we can get from the government.

Girish Chaudhry: But I believe your current MDF plant has that incentive, is that right?

Shobhan Mittal: The current MDF plant it was not a state government incentive, it was a central government incentive which was allocated not only to our MDF plant but to the entire area for industrialization which was excise benefits for 10 years and income tax benefit for five years.

Girish Chaudhry: When is this lapsing?

Shobhan Mittal: For the MDF unit, this should be about 2020.

Girish Chaudhry: Any other plant apart from this Nagaland and MDF plant where we are seeing tax benefits lapsing?

Shobhan Mittal: No, in our group these are the two plants where we have tax benefits.

V. Venkatramani: Currently we have tax benefits only at Uttarakhand plant because Nagaland benefit expired in the last financial year.

Girish Chaudhry: My other question basically hung in on MDF, so basically what is the current difference between your MDF prices and unorganized plywood which is where we have been competing and getting a lot of volume?

V. Venkatramani: So we are at a slight premium of about 4% to 5% over the unorganized plywood.

Girish Chaudhry: Same time last year if I have to ask you this number, where were we?

V. Venkatramani: I think we were at a similar premium and we have been able to increase prices only because plywood prices went up last year. So although we did not take the benefit of that price increase last year we did it in the beginning of the current year, so we would still be at a premium of about 4% over the unorganized plywood.

Moderator: Thank you. Our next question is from the line of Pratik Chaudhary who is an Individual Investor. Please go ahead.

Pratik Chaudhary: Sir, could you tell me about your market shares in northern and southern parts because since they are your major markets for MDF, if you could divide your market share in the northern and southern part?

Shobhan Mittal: I would say approximately 50% to 55% of our MDF sales comes from Northern India and about 30% from Southern India.

Pratik Chaudhary: No, since you also mentioned that since freight is a fixed cost when you are basically transporting your products to Southern India and that is why you are not able to capture that market in a big way. So if we segment these two markets as two different markets, what would be your market share in the northern market specifically?

Shobhan Mittal: I think in the northern market I think our share should be I would say close to maybe 40%, 45%.

Pratik Chaudhary: And who are the other players who are supplying in this market?

Shobhan Mittal: The major player would be Action.

Pratik Chaudhary: And what would be its approximately market share?

Shobhan Mittal: I think even in their case it should be about I do not know, maybe 30%.

Pratik Chaudhary: So you are saying you are 40% in north and he is 30% in north?

Shobhan Mittal: Yes.

- Pratik Chaudhary:** So this new plant that is coming up in Punjab and since it has been mentioned that it is a Chinese line that they are putting up, so would it not affect the realizations in the northern region going forward whenever this new plant comes up?
- Shobhan Mittal:** It could result in increased competition, yes, but because the north is fairly insulated from imports because of the additional freight cost from the ports to the northern part and the fact that the MDF industry is fairly organized industry with few players so it is actually easier to hold on to prices and maintain pricing levels in the market as an industry.
- Pratik Chaudhary:** I agree with that point, but since you said 40% is you in North and 30% is Action and probably divide it between two or three other smaller players, so when this new 180,000 cubic meter capacity comes which is same as yours, I mean I guess it would have a drastic impact on the realizations on the north side?
- Shobhan Mittal:** We would also not be 100% dependent on the northern market for the sales, because no company even today would want to depend on just one market. Although north is the most lucrative market for us and with the additional freight that we pay to go to the south of India, if we were to pass that on as a percentage of sales in the north we would be able to sell that quantity in the north. But the idea is to keep all markets alive, not to become a very region centric player, that is why even Century for that matter would not want its entire sales to go only in the northern part or the eastern part for that matter.
- Pratik Chaudhary:** But do you think the market will be able to absorb and you would not have any downward pricing pressures in the northern part?
- Shobhan Mittal:** Yes, and more importantly as competition grows there is also addition effort that is going into converting the market into the usage of MDF, so that also enhances the growth rate to a certain extent. If you look at history, when we started our plant the whole country was producing about 400 cubic meters of MDF when our plant started and then we doubled the country's capacity, but yet today we are in a position where things are okay.
- Pratik Chaudhary:** And these other manufacturers who are there in the north and the south, one that you mentioned Action, do they have a European plant same as yours or do they operate on the Chinese line, how are they doing it?
- Shobhan Mittal:** They also have a Chinese line but theirs is multi-opening Chinese line, where the Century is considering a continuous Chinese line and what we have is a continuous European line.
- Pratik Chaudhary:** And so leaving aside the CAPEX cost of it because that has already been discussed, how is it different in terms of cost of production?
- Shobhan Mittal:** Well, I would say the multi-opening line is actually the most cost inefficient.
- Pratik Chaudhary:** The one that is being taken up by Century?
- Shobhan Mittal:** No, the one that Action has.
- Pratik Chaudhary:** That is the most cost inefficient?

Shobhan Mittal: Yes. See the continuous press is always more cost efficient, but like I said that the press or the technology that Century is putting in is I would say at a very nascent stage and very-very experimental stage. So even I am not in a position to comment whether that would be more efficient compared to the multi opening line of action or whether it would be at par or whether it would be better, it is too premature for me to comment on that.

Pratik Chaudhary: Any idea when are they coming up with this line, Century?

Shobhan Mittal: January 2017.

Pratik Chaudhary: January 2017 it would be on-stream?

Shobhan Mittal: Yes, that is what they said.

Pratik Chaudhary: And what about your market share in the southern market as of now?

Shobhan Mittal: In the southern market, I would say our market share would be maybe about 12% to 15%, because we are not catering to the major segment of MDF which is the industrial grade.

Pratik Chaudhary: So another question, what is the proportion of industrial?

Shobhan Mittal: Industrial would be about 70% to 75% of the total market.

Pratik Chaudhary: This is exterior, industrial grade as a percentage of the total market?

Shobhan Mittal: Of the whole market, yes.

Pratik Chaudhary: 70%?

Shobhan Mittal: Yes, 70% to 75%.

Pratik Chaudhary: What is the same proportion for you, industrial and exterior?

Shobhan Mittal: In the whole country you mean to say?

Pratik Chaudhary: Yes, I mean Greenply's MDF.

Shobhan Mittal: Not only for the south you mean, right? Of our overall production we are also at about 72%, 75% on the industrial grade.

Pratik Chaudhary: So 30% is exterior which is 25% higher?

Shobhan Mittal: No, not exterior, see in our case we also produce a product called Ecolite which is a lighter density product in which we are the only producers who are producing that, so we do allocate about 20% to 25% of our capacity to Ecolite and about 15% is going into exterior grade and the balance is going into industrial grade.

Pratik Chaudhary: This we are talking about MDF, right?

Shobhan Mittal: Yes MDF, correct.

Pratik Chaudhary: And this 12% to 15% market share in South India was also for MDF?

Shobhan Mittal: Yes, of the southern market.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Shobhan Mittal: Thank you very much everyone for attending the conference call. I hope we have been able to answer your queries clearly. If you do have any further queries please feel free to get in touch with us. And at this point we would like to close this conference call. 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 lines.