



Greenply Industries Limited
Q4 and Full Year 2016 Earnings
Conference Call Transcript
May 24, 2016

Moderator Ladies and gentlemen good day and welcome to the Greenply Industries Limited Q4 and full year 2016 earnings conference call. As a reminder all participants' 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 please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you Sir.

Gavin Desa Thank you. Good day everyone and thank you for joining us on the Q4 and FY16 earning call for Greenply Industries. We have with us today Mr. Shobhan Mittal – Joint Managing Director and CEO and Mr. V. Venkataramani – 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 risks and uncertainties. A detail 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 proceedings of the call.

Shobhan Mittal Thank you Gavin. Good afternoon everyone, like to welcome all of you on this call. We feel the numbers have been fairly positive considering the market conditions. Mr. Venkat will run us through the presentation and at the end of the call we will have an open session for questions and answers. I will hand it over to Mr. Venkat now.

V. Venkataramani Good afternoon, welcome to this conference call to discuss the Q4 and FY16 numbers for Greenply. We have delivered a stable performance in a challenging environment both in the current quarter as well as the whole of FY16.

Top line growth was about 5.7% on a year on year basis. Plywood growth at 4.4% and MDF at 7.1% which is partly reflective of the overall demand scenario. Average realization of MDF has improved over the previous quarter and year which is reflecting the change in consumers, preference for our products. Wallpaper, our newest offering continues to make steady inroads and it is gradually gaining acceptance.

Our gross margins have improved by 260 basis points on a quarterly basis and by 270 basis points on a yearly basis which is a reflection of operational efficiency and led by better capacity utilization and better product mix. The increasing share of MDF in the top line has definitely helped to improve the operating margins as well as the net profit margins. We will continue to invest in building our brands which has helped us to maintain our strong market share and expenditure to sales in quarter 4 was 2.5% against 1.2% in the year on year quarter which has helped in improving the

brand recall. However, for the full year Ad expenditure has increased by about 23%, operating margins were higher by 240 basis points at 14.9% for the quarter and improved by 190 basis points to 14.8% for the full year. We will continue with our efforts to improve the gross margins and the operating margins.

Our capacity utilization in Q4 FY16 for the Plywood segment was higher at 109% and we are optimistic that we will continue to improve the capacity utilization in the Plywood segment during the current year. MDF utilization was at 100% and we will continue with our efforts to take this up to 115%. For the full year, utilization for the Plywood segment was higher at 101% and MDF utilization was at 99%. Overall improvement is due to increasing market share from the unorganized sector.

Our adjusted PAT for quarter has grown by 34%, after reducing extraordinary and exceptional items. For the full year it has improved by 22% owing to several initiatives undertaken towards improving the overall margins and reduction in finance cost. PAT for the year would have been higher but for an increase in the effective tax rates which have gone up by about from 14% last year to about 25% in the current year. Our working capital days have reduced by 9 days during the current year which is a significant achievement in this period where demand is at a premium. So we will continue with our efforts to reduce the working capital investments in the current year. We are well positioned in the market place and would like to emphatically state that as soon as the environment improves and some important legislation which is pending to be passed by Parliament, we should see a stronger growth happening in the current and future years.

That concludes my presentation. Thank you very much, we can now start the question and answer session.

Moderator

Thank you very much Sir. Ladies and Gentlemen we will now begin the question and answer session. Our first question is from the line of Karan Desai of L&T Mutual Funds, please go ahead.

Karan Desai

I was just looking at the numbers, if you could explain me a couple of things in the numbers; one is why our MDF growth is looking actually weaker than what it has been in past few quarters and as far as your working capital improvement is concerned especially in a scenario wherein I see working capital days being expanded for a couple of players in the industry, not just yours but building products as a whole. It would be great if you could explain what different have we done?

Shobhan Mittal

The growth of MDF for this last quarter, we did face some challenges in the month of March because we had a breakdown for almost 6 or 7 days where the working got effected substantially and this was a resultant of that as we could not increase our capacity output of the product in the last month. So that is why it affected us quite tremendously, this breakdown for 6 or 7 days.

Karan Desai

So is that one of the reason why your production is looking down by 7%, right?

V. Venkataramani

Yes. And the second part of your question, you were speaking about the working capital improvement. Working capital improvement is something we have been concentrating for the past 2 years. So although we have not been able to affect substantial improvements because of prevailing market conditions but it has been a focus area for us and I am happy to state that we have been able to reduce inventories substantially during the past 6 months and we hope to effect further improvements in the debtor cycle during the current year. And definitely the increasing share of MDF in the top line is also helping us to streamline the working capital cycle because the trade days in MDF is far lower than Plywood and is also in a sense helping us to reduce the working capital investment.

- Karan Desai** Going forward in the presentation as well as in the opening remarks you mentioned about incremental growth in the Plywood segment coming from outsource capacities, so that would be at the base category for the Ecotec product, right?
- V. Venkataramani** That is true. So if you look at our Plywood capacity, capacity utilization for the full year has been 101%. So I think we would like to see a closer to 110% capacity utilization in the current year which would in effect be continuing with a 109% capacity utilization we achieved in the last quarter. So I think there is still room for improvement, so we can scale up capacity utilization to 120% in the Plywood segment and we think we can definitely achieve 115% in the MDF segment. So there is still an opportunity to grow in the manufacturing segment and we would also continue with our efforts to grow the outsourcing segment in the Plywood business because long term we are targeting that most of our growth in Plywood will come from the outsourcing segment.
- Karan Desai** And if you could give a bit of color on your newest initiative that is a Wallpaper thing?
- V. Venkataramani** We would be trying to achieve a top line of about Rs. 20 crore to Rs. 25 crore in FY17 from Wallpaper but it is very difficult to give concrete figures at the moment We have achieved about Rs. 4.39 crore in FY16 because we started the business only in the last couple of quarters, effectively from December. So we would be targeting a top line somewhere between Rs. 20 crore to Rs. 25 crore in FY17 for the Wallpaper business but I will be able to give you a more realistic figure once we have a couple of more quarters of visibility.
- Karan Desai** Sure but some color on margins and how is the inventory and everything?
- V. Venkataramani** It is a new business, so I guess again it will depend upon the top line, operating margins will be linked to the top line growth. So if we achieve our top line of about Rs. 20 crore to Rs. 25 crore, I think we can get a margin of close to 15% in the current year.
- Karan Desai** And Sir how is the demand scenario across categories; Plywood and MDF. How tough is it ...?
- V. Venkataramani** Like I mentioned March was quite positive and April was also reasonably positive but dealers have incentive targets at the year end. So I would like to track it for a couple of more quarters before making any definite statement on demand conditions in the Plywood segment. So we would like to see how the operations pan out in the first and the second quarter before giving a statement like that growth is back to a decent level in the Plywood business. So I would just like to track it for a couple of more quarters.
- Moderator** Thank you. Our next question is from the line of Pratik Shah of Antique Finance, please go ahead.
- Pratik Shah** Could you just give us the volume growth for Ecotec in this quarter and for the full year, if it is possible?
- V. Venkataramani** There was a slight volume de-growth for Ecotec in this quarter for about 2.5% but we have to look at it from a different perspective. So, to improve the capacity utilization in our manufacturing units, we have shifted some of the products in the Ecotec category to the manufactured segment. So overall if we exclude the Ecotec BWR from the Ecotec segment, we have had a growth of about 26% in the current year.

- Pratik Shah** Which category is the growth coming from there?
- V. Venkataramani** Ecotec mostly goes into the mid segment of the residential sector so it is across cities in the mid segment of the real estate.
- Pratik Shah** Which category is growing faster for us in this quarter?
- V. Venkataramani** If we look at this quarter, Ecotec on a comparative basis has shown a de-growth of about 2.5% because we have shifted some products from trading to manufacturing and if we look at the premium segment, volumes have improved by 11.5%.
- Pratik Shah** And Sir one more thing, any change in CAPEX plan or you still stand by the previous amount?
- V. Venkataramani** Our CAPEX plan remains the same.
- Pratik Shah** Sir on this anti-dumping duty on MDF from Indonesia and Vietnam which will be levied in the next 2 months, what is the positive impact on our business division on MDF as such?
- Shobhan Mittal** Well I think what we foresee is that it will have some positive impact on the coastal part of the country and the port areas where imports tend to be substantially cheaper than our products because since our factory is quite inland and the transportation cost is quite expensive but since majority of our sales are already happening in the North of India so that will also sort of negate a major portion of the benefit but yes on the port areas it definitely makes us more competitive and more importantly when the new plant is online which is in Andhra Pradesh which is already very close to the port locations of the South that would be more beneficial from that plant's point of view.
- Moderator** Thank you. Our next question is from the line of Sneha Talreja of Emkay Global, please go ahead.
- Sneha Talreja** As you give brief about MDF, I just wanted to know we already have duties on MDF on China, Malaysia, New Zealand, Thailand and Sri Lanka. Now we have imposed further duties on Indonesia and Vietnam. Just wanted to know how much of the proportion is currently being imported from these countries, out of the total demand how much is the import proportion?
- Shobhan Mittal** So Sneha I will answer this, basically what has happened was when the initial anti-dumping policy was implemented on these countries that you just mentioned, majority of the imports actually shifted to Vietnam and Indonesia in order to circumvent the effect of the duty. So major of the importers and unfortunately at that time there were tremendous new capacities that had built up in Indonesia and Vietnam. So majority the imports actually shifted on to Vietnam and Indonesia and at that point of time initially when the duty was being implemented on the other countries the volume from these countries were very low, so they did not even come under the gamut of the investigation but now that major volumes are coming in from these countries, is why the government was able to include them in the investigation and decided to implement anti-dumping duty on these countries.
- Sneha Talreja** Right now are those anti-dumping duties prevalent on those countries or is it just on Indonesia and Vietnam that we have?

- Shobhan Mittal** No, so the older policy continues, it has been renewed already and this is in additional inclusion of Vietnam. I mean it is a new investigation but now Vietnam and Indonesia will also attract anti dumping duty.
- Sneha Talreja** Just for my knowledge, how is the MDF market in India, how much is being imported, how much is being supplied by the Indian producers?
- Shobhan Mittal** We would say about 35% of the market currently is still being supplied by imported products.
- Sneha Talreja** And the remaining would be Indian producers.
- Shobhan Mittal** Yes.
- Sneha Talreja** And how much of it would be from China?
- Shobhan Mittal** China because again is falling under the anti-dumping duty gamut and currently there is not major volumes coming in from China. Already anti-dumping is there and also because of the de-valuation of the Ringgit and the Thai Baht import from Malaysia has become cheaper compared to China so that is why there is not much volume coming in from China at the moment.
- Sneha Talreja** Okay, otherwise Sir how are we competitive versus China, this anti-dumping duty has been re-imposed from August 2015 and I think that would last for around 5 years, so otherwise how are we competitive v/s see for example China itself.
- Shobhan Mittal** Well I think there is different category of products and what we sell in terms of quality is very different to a certain Chinese producer maybe selling here but if we focus on, if you compare the prices in North of India where we are located close to the market whereas they have to transport the material all the way from the port into the market. In that case we become to be more competitive and if it works the other way round where I am transporting the material to the port areas like Chennai or Bombay, etc., and sea freight tends to be much cheaper compared to the inland freight of India and then of course they tend to be more competitive and that is why the anti-dumping sort of is helping on the coastal areas.
- Sneha Talreja** And Sir what according to you would be the impact on demand because we have seen the demand slowing down from you know it was growing at about 25% to 30% earlier then we came down to around 15% to 20%, this quarter we understand that it is due to shut down of around 7 days that you have taken a hit, otherwise with this anti-dumping duty coming into picture, how do you see the demand in India for MDF?
- Shobhan Mittal** We do not see that the market demand will shrink. What this will definitely help in increase of sales and growth for the domestic producers, but I do not think a market demand itself would get affected because the imported products will simply start getting replaced by domestic producers.
- Sneha Talreja** So it will just give us a short term temporary that the Indian producer would be able to gain the market share currently.
- Shobhan Mittal** Yes.
- Moderator** Thank you. Our next question is from the line of Pritesh Chedha of Lucky Investment Managers, please go ahead.

- Pritesh Chedha** I was just looking at your numbers, now you said about utilization level in Plywood is about (+100%) and utilization in MDF is about 98%, is that the number which you gave?
- V. Venkataramani** I said 101% in Plywood and 99% in MDF.
- Pritesh Chedha** If I look at both these numbers and look at your capital employed and EBIT number, it seems to suggest that about (+20%) is what the ROC is in Plywood and about 30% is the ROC which is there in the MDF. So hereon I wanted to understand your CAPEX plan, would it be in MDF or would it be in Plywood and your growth considering the fact that you are running at (+100%) or around 100% in both these spaces?
- V. Venkataramani** A major part of our growth will come from MDF because our next major capital expenditure is happening in MDF. We are setting up a new MDF plant in Andhra Pradesh with a capacity of 3,60,000 cubic meters which is twice the existing capacity, so I think major part of our growth in MDF in future that is effective from FY 2019 will come from MDF but during this period of next 2 years I think growth in the MDF and Plywood will go hand in hand. So we should be growing at almost similar levels in both the product segments.
- Pritesh Chedha** So it would be mostly outsource or you can juice up this capacity more by utilization?
- V. Venkataramani** I mentioned we are operating at about 100% in Plywood so we can take capacity utilization to about 120% and then the balance growth would come from outsourcing. In MDF this year we have done 99%, so we can go up to 115% but there would be no outsourcing opportunities in MDF.
- Pritesh Chedha** So MDF you have one-year capacity available for growth, FY18 it would be challenging?
- V. Venkataramani** Yes, FY18 would be challenging definitely.
- Pritesh Chedha** And what kind of capital expenditure is done in MDF?
- V. Venkataramani** It would be approximately about Rs. 700 crore of which we have spent about Rs. 60 crore till date and the balance will happen over FY17, FY18 and say roughly middle of FY19.
- Pritesh Chedha** And how much would be debt funded in this and is there any equity need?
- V. Venkataramani** About 60% of the funding would be from debt and we will be doing a small dilution of about 2%. So we would be raising approximately Rs. 50 crore of equity.
- Pritesh Chedha** Lastly I just want to understand are there any margin drivers on incremental 20% more utilization of capacities?
- V. Venkataramani** So I would expect a 50 to 70 basis points improvement in the margins.
- Pritesh Chedha** And your tax rate?
- V. Venkataramani** Tax rate will increase further in FY17, so I think from about 25% in the current year should move up to about 28% in FY17.
- Pritesh Chedha** And FY18?

- V. Venkataramani** Similar levels.
- Moderator** Thank you. Our next question is from the line of Dhavan Shah of Indsec Securities, please go ahead.
- Dhavan Shah** Couple of questions first is related to the inventory days. So when I am looking at the inventory days it came down to around 31 days from 45 days in FY15, so how should we read it out? I mean is that because you are expecting the subdued demand in the next few quarters so just to manage the working capital?
- V. Venkataramani** No, see the focus was on reducing the working capital, investments primarily in Plywood because it is already quite well-controlled in MDF. So there was limited scope to improve the debtor days in the Plywood segment during the current year, so we focused more on improving the inventory levels which was pretty much within our control. So we have been able to bring down inventory days just to about 31 days in the current year from about 49 days at the end of FY15. So going forward I think we have now come to the best possible inventory days possibly some small improvements but we would be definitely targeting at improving the debtors days in the current year.
- Dhavan Shah** So we can expect that the inventory could be in this range around 30 days to 35 days, right?
- V. Venkataramani** Yes that is correct.
- Dhavan Shah** And just if you can highlight something on the margins for the Plywood segment for this quarter, so that has improved a lot I suppose, around 1%.
- V. Venkataramani** I will explain that; we had done some capital expenditure at the Nagaland factory to basically improve the quality of the Plywood, so due to that capital expenditure we have become entitled to refund of excise duty at the Nagaland unit effective July 2015 so since we got the approval only in February this year the entire excise refund for 9 months has come in the current quarter, so that has had an impact of about 100 basis points on our Plywood margins for the current quarter.
- Dhavan Shah** So our margins is around 10% for Plywood, is it right?
- V. Venkataramani** Plywood I think it is about 10.3% of that about 1% would be due to the impact of excise refund for the previous two quarters which were received in the current quarter.
- Dhavan Shah** Just one more clarification, you said this revenue of around Rs. 20 crore in FY17 from this wallpaper business, right?
- V. Venkataramani** That is correct.
- Dhavan Shah** So, in the last con call, you guided something Rs. 30-40 crore from this wallpaper business, so any reason to downgrade the guidance?
- V. Venkataramani** I think it is taking time to spread the distribution network, so we have revised our estimate, so possibly, yes the work which we have done in the wallpaper segment over the past 6 months, so I think Rs. 20-25 crore is a more achievable number for FY17.
- Dhavan Shah** Okay and just last question, the current investment has been sold off this year, so is that entirely into the Himalaya Granite debentures?

- V. Venkataramani** No, Himalaya Granite was a very small investment that was only Rs. 64 lacs, what we have done is, you remember till last year The Myanmar company was a 100% subsidiary of Greenply Industries, so that has been sold to our JV company at Singapore. So, earlier we were holding Myanmar as a subsidiary of Greenply India, now it is a subsidiary of the JV company in Singapore and our 50% investment in the JV company is through our wholly-owned subsidiary in Singapore.
- Moderator** Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments. Over to you sir.
- Shobhan Mittal** Thank you very much for attending this call. If you do have any more questions, please feel free to contact us. With this we would like to close this call. Thank you very much.
- Moderator** Thank you members of the management. Ladies and gentlemen on behalf of Greenply Ply Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.