



Greenply Industries Limited

Q3 & 9 Months FY2020 Earnings Conference Call Transcript February 12, 2020

Moderator: Ladies and Gentlemen, Good day and welcome to Greenply Industries Limited's Q3 and 9 months FY2020 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: Good Day everyone and thank you for joining us on the Greenply Industries Q3 and 9 months FY2020 Conference Call. We have with us today Mr. Rajesh Mittal – Chairman and Managing Director, Mr. Sanidhya Mittal – Joint Managing Director, Mr. Manoj Tulsian -- Joint Managing Director and CEO and Chief Financial Officer - - Mr. Mukesh Agarwal.

Before we begin, I would like to state that some statements made in today's discussion maybe forward looking in nature and may involve risk and uncertainties. A detailed statement in this regard is available in the result presentation that was sent to you earlier. I would now like to invite Mr. Sanidhya Mittal to begin the proceedings of the call. Thank you and over to you, sir.

Sanidhya Mittal: Thank you Rishab. A very warm welcome to everyone present and thank you very much for joining us today to discuss Greenply's operating and financial performance for Quarter 3 and 9 months FY20 Conference Call. Let me commence by welcoming Mr. Manoj Tulsian our newly appointed CEO. Manoj's appointment represents our endeavor towards having in place our professional management that will put in place suitable processes and customs. We are very sure with this we will be able to reach greater heights. We are happy by the response to our mid and low price brands which has enabled us to obtain considerably expanded market access in a very efficient way. We have completed our face veneer facility expansion in Gabon in November 2019.

On the domestic policy front, with the government making efforts and plans for stricter implementation of the GST and E-way bill we are optimistic that things will slowly and steadily begin to favor the organized market. We feel that there will be an improvement in the real estate market conditions in the near future and this will flow down to the building material sector in time as well. Standalone net sales of Greenply Industries for the quarter ended December 2019 stood at Rs. 318.4 crore



compared to Rs. 310.9 crore in Quarter 3, FY19 an increase of 2.4%. Overall, gross margins have been down by 18 bps at 38.2%. Our average realizations in Quarter 3 FY20 in plywood decreased from Rs. 225 in Quarter 3 FY19 to Rs. 219 per square meter in Quarter 3, FY20. Standalone EBITDA margins for the quarter increased by 77 bps year-on-year to 11%. Consolidated EBITDA margins for the quarter increased by 3 bps year-on-year to 11.6%. I would now like to hand over the call to Mr.. Mukesh Agarwal for the financial numbers.

Mukesh Agarwal: Good afternoon everyone. I thank everybody for joining us to discuss Q3 FY20 financial performance of Greenply Industries. In Quarter 3, FY20 our consolidated topline was down by 1% as compared to the year-on-year quarter. In Q3 FY20 consolidated margins down marginally by 7 bps year-on-year at 40.9%. Consolidated EBITDA stood at Rs. 39.9 crore and standalone EBITDA stood at Rs. 35.1 crore. Consolidated PAT was up by 2.3% at Rs. 21.3 crore compared to Rs. Rs. 20. 8 crore in Q3 FY19. Standalone PAT in Q3 FY20 increased by 22.7% to Rs. 18.6 crore as compared to Rs. 15.2 crore in Q3 FY19. Consolidated working capital cycle as on December is at 70 days which is same as compared to December 18 standalone working capital cycle as on December 19 is at 63 days which is higher by 1 day as compared to December 18. Standalone working capital cycle as on December 19 improved by 5 days as compared to September 19. This is mainly due to 4 days improvement in debtors' days as on Q-on-Q basis. Standalone debt-to-equity ratio is at 0.4 as on December 19 and 0.55 as on December 18. Consolidated debt-to-equity ratio is at 0.65 as on December 19 and 0.90 as on December 18. CAPEX incurred in 9 months in Indian plywood business amounted to Rs. 12.08 crore and CAPEX incurred during 9 month FY20 in Gabon was Rs. 14.75 crore. Our performance in this quarter has been encouraging and economic wherein the building material space continue to face challenges. I would like to hand over the call to the moderator to open the floor for the question and answer session. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Sir it is pertaining to sir what would have been the mix in the current quarter for you or project versus the retail sales?

Sanidhya Mittal: Can you please repeat the question?

Sneha Talreja: Sir, what would have been the sales mix for you project versus the retail sales?

Mukesh Agarwal: So basically, if you see then the premium segment in the volume terms we achieved around 62% and, in the trading segment is around 38% and in the value terms our sales in the premium plywood including decorative veneer was 72% and trading was 28% and we supply mainly from the trading division which is our outsourcing mid and low segment to the project sales.

Sneha Talreja: Sir, roughly around 28% to 30% is your I mean project sales?

Mukesh Agarwal: Not exactly 28% to 30% because direct sales to the project is around 7% to 8% from the company, but we route major sales from the dealer to the project.

Sneha Talreja: And sir what has been the reason for increase in receivable days in this particular quarter for us?



- Mukesh Agarwal:** We have taken lot of commercial corrections in this quarter and our target was to reduce the debtor's days. In Q2 FY20 if you see our debtor days was 93 days and we reduced this in this quarter by 4 days. So, we tightened our working capital and we reduced our credit days in this quarter and we collected some old outstanding also in this quarter.
- Sneha Talreja:** Sir, could you also comment on the demand scenario?
- Sanidhya Mittal:** So, demand scenario at the moment I would not say it is the best, but at Greenply we have realized that this is how it is going to be. So, in this we have to look for an opportunity and the considering the scenario is going to be like this we have to keep going. So, if you see our projections also for this year were much higher than what we have done. So, we realized that the demand scenario overall is not very good and is not letting us grow so that is the reason we have decided that you know we will tighten our working capital and we will improve things this year. So that when the demand scenario improves we will be in a better position in next year.
- Mukesh Agarwal:** So, in this quarter we improved our debtors by Rs. 20 crore and we have taken a decision and that was the reason why we had a 2.5% growth in the standalone sales and if you would have the same debtor number than the growth would have been anything between 8% to 9% in the quarter, but we have taken a call on the working capital days and the debtor days.
- Sneha Talreja:** And I think you will be continuing with the same tightening of the working capital days in that case what is the growth outlook I mean what are you looking out for in Q4 as well as next year?
- Sanidhya Mittal:** Next year we are still in the process of doing our budgeting so next year we are not in a position to tell you right now, but Quarter 4 looks pretty much on the lines of Quarter 3 only.
- Mukesh Agarwal:** So, we are targeting in the plywood business around 4.5% growth for the year.
- Moderator:** Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta:** Sir, wanted to understand on the Gabon subsidiary, so how the things are looking for Okoume veneer compared to let us say Gurjan and other veneer and are the prices still correcting or have they more or less been stable?
- Sanidhya Mittal:** I will first answer Okoume versus Gurjan so if you see what we are trying to do in Gabon we are not only focusing on the Indian market we are focusing on the rest of the world which means mainly Europe and South East Asia. So in other markets Okoume was always very well accepted so it is still accepted and is doing very well. In India Okoume got lot of acceptance in the beginning lately after Gurjan prices falling again there has been some shift in the domestic market towards Gurjan, but as far as we are considered and our brands right from our flagship brand club plus until our low end we only promote Okoume and there is a huge I think like lot of plywood manufacturers in India who are accepting Okoume and as far as the price you are talking about the price yes there is some price corrections because in the beginning Quarter 1, Quarter 2 there were lot of issues for shipments also from Gabon. So, in Indian in Quarter 3 a lot of shipment came together because of which everyone had overstocking of Okoume. So, the demand

for Okoume was low in Quarter 3 and also because of Gurjan prices falling down there was a price fall in Okoume prices in the domestic market, but the global market there is no price fall.

Pranav Mehta: Sir, what would be the breakup for India and Europe and rest of the world for face veneer business?

Mukesh Agarwal: So, in Quarter 3 Europe was 13%, India other than Greenply was 36%. Greenply India we source for captive consumption was 24%, Southeast Asia was 27% whereas in the corresponding quarter last year Europe was only 1% India was 73% so against 73% we sold only 36% in the India market in the current quarter and Southeast Asia was 4% in the corresponding quarter last year and this quarter we sold around 27% of our face veneer.

Pranav Mehta: Sir, just a one off if you can give some clarity on the decorative veneer business, so is the industry seeing growth or are you capturing some market share how the things are moving in that segment?

Sanidhya Mittal: So, I do not think that the industry is growing at a very big pace it must be growing at 3% to 5%, but I think we are capturing market share. So where if you see our plant was only 1.5 years old and now we are available across and I think whatever incremental sales we are getting from decorative veneer I think we are capturing market share.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Anand Rathi Research. Please go ahead.

Ashish Poddar: Sir, it seems that the revenue from Gabon this quarter was very low about Rs. 25 crore while I think at a last quarter is on a higher number and in coming quarters we were expecting even higher number if we can quantify the number and how do you see that along with the margin and how do you see both the element going forward?

Mukesh Agarwal: So in the current quarter the turnover from Gabon was Rs. 26.5 crore out of which Rs. 21.3 crore came from the face veneer business and we have other business swan timber and log that contributed around Rs. 5.2 crore so total was Rs. 26.5 crore in the quarter and from the margin side we expected margin of around 18% and in Quarter 3 and in 9 months our margins was close to 17.5% and we are hopeful that in Q4 also we will achieve that 17.5% to 18% margin.

Ashish Poddar: So, this Rs. 26.5 crore revenue in the quarter was is this on the expected line or is what it was lower because according to my number and what you were guiding earlier it should be around Rs. 45, 50 crore for the quarter?

Mukesh Agarwal: Yes, our target was initially high, but because of the correction in Indian market we lost volume. So, we shifted our focus on Europe market and South East Asia market and that is the reason in Quarter 3 in the corresponding quarter we had 74% of the supplies to other customers in India and in this quarter, it was low as compared to the earlier corresponding quarter.

Ashish Poddar: What is the guidance for full year now and for FY21?

Mukesh Agarwal: So, till 9 months we have achieved on consolidated basis Rs. 105 crore of turnover and for the full year we are guiding anything from Rs. 145 to 150 crore.

Ashish Poddar: And for the next year if you have any number?

Mukesh Agarwal: Next year we have not yet frozen because we want to see the performance in the Quarter 4 for Indian market and the European market which is also new and so after that we will guide for the next year.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

Karan Bhatelia: What CAPEX spend are we looking for current year and next year?

Mukesh Agarwal: So current year from the Indian business we have only normal maintenance CAPEX which is Rs. 16 crore out of which in 9 months we incurred Rs. 12.08 crore and balance will be close to Rs. 4 crore in Quarter 4 and in the Gabon business we have around Rs. 22 crore out of which Rs. 14.7 crore incurred in 9 months and balance Rs. 6 crore in Quarter 4 in the current year.

Karan Bhatelia: Sir, is my assessment right to say that whatever degrowth you had at the Gabon level is purely a realization dip because if you see we have done Rs. 26.5 crore for Q3 compared to Rs. 37.5 crore for YoY and Rs. 35 crore for QoQ so because we expand in capacities from 36,000 to 96,000 so how has the realization shaped up?

Mukesh Agarwal: So, realizations are not degrowing in Gabon in Quarter 3 there actually is the volume loss. So, in the last corresponding quarter we sold to Indian market and to Greenply, but whereas in this quarter considering the face veneer in India we shifted our focus to Europe and South East Asia and Europe we started after our new extension which happened on 6th of November 2019. So, we had only 1 month for the European market supplies during December we supplied to European market and in current quarter also we are targeting mainly European market and the South East Asian market.

Karan Bhatelia: And how is the difference between the realization when you supply to India and when you supply to South East Asia and Europe so is it that those markets are premium end of products?

Mukesh Agwaral: So Indian and South East Asian market are almost 2% to 3% difference in realization, but if we supply to Europe we get premium of 8% to 10%.

Karan Bhatelia: And even going ahead we would like to so how much of sales are we expecting from South East Asia and Europe in coming two to three years?

Mukesh Agarwal: So, two to three years we will guide you after the end of Quarter 4, but in current quarter we are seeing that we will be close to Rs. 145 to 150 crore and in 9 months we achieved Rs. 105 crore. So, balance Rs. 40, 45 crore what we are seeing in this quarter will be mainly from European market and South East Asian market.

Karan Bhatelia: And how are things shaping in Myanmar market, how are the operations over there?

Mukesh Agarwal: So, if you can repeat your question?

Karan Bhatelia: How has our performance been in Myanmar for 9 months, do you see some improvement there?

Mukesh Agarwal: We have a JV company at Singapore and there on the profit and loss basis we have a loss and our share was Rs. 1 crore, so for the year we are guiding there should be some improvement in Quarter 4 so we are hopeful that we will be able to recover this loss whatever we have in 9 months.

Karan Bhatelia: So, do we see things improving out there because we had the profit in FY19 and I think we will be somewhere flattish for FY20?

Mukesh Agarwal: We still hope that in Quarter 4 we will be either flattish or nominal negative. One positive thing coming from Myanmar is prices of timber have corrected and that is helping us in Quarter 4.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Sir, can you share the details for Jansathi and Bharosa, what was the contribution for this quarter and for 9 months?

Mukesh Agarwal: So, in the volume terms the Jansathi and Bharosa contributed 4,58,000 in square meters as compared to 4,36,000 in the corresponding quarter last year and in 9 months Bharosa and Jansathi was 15,50,000 whereas in the corresponding quarter it was 14,14,000 square meters.

Pranav Mehta: And sir what about value how much did it contribute on the value terms?

Mukesh Agarwal: In the 9 months Bharosa Jansathi contributed around Rs. 18.9 crore and in the corresponding quarter it was Rs. 18.6 crore.

Pranav Mehta: Sir, what would be the pricing differential between Gurjan and Okoume currently?

Rajesh Mittal: It is almost you can say around 35%.

Pranav Mehta: And sir any traction you are seeing in the Indian market for the plywood segment in the premium category or only the mid and lower categories are growing currently?

Sanidhya Mittal: So, I think if you see the whole plywood pyramid also the premium category we already enjoy a very high market share. So we will keep growing and we will keep getting some market share from the B category plywood players but the major scope to grow is in the medium and low end for sure because the pyramid there is very huge and our market share is very low and as GST and E-way bill and compliance becomes strong in the country organized company like ours we will be able to get share from the unorganized and that segmental grow much faster than the premium.

Pranav Mehta: So, sir is you seeing any on ground improvement in GST compliance particularly in Yamuna Nagar?

Rajesh Mittal: Yes it is there we are seeing some compliance means some compliance from Yamuna Nagar side also. The billing has been increased now.

Pranav Mehta: And sir that receivables also remain stretched right?

Sanidhya Mittal: The receivables remain stretched, but we have improved quarter-on-quarter by 4 days.

Pranav Mehta: I am saying about Yamuna Nagar so unorganized they are seeing the receivable getting stretched or are they now becoming stable?

Rajesh Mittal: No, they are not stable they are being stretched.

Moderator: Thank you. The next question is from the line of Aasim Bharde from IDFC. Please go ahead.

Aasim Bharde: Sir, first question in your Gabon subsidiary you are expecting margins of 17.5% to 18% in Q4 and you expect similar margins ahead as well I wanted to know what drives this confidence of margin given that Indian volume maybe under pressure and also the fact that this product is largely a commodity and there is no brand player, so what differentiates our product versus other players?

Sanidhya Mittal: So, you are absolutely right there is no brand player and the only reason we are confident about our margin is because from the beginning we are very clear that we are going to focus on a different markets. So almost every player which has gone to Gabon they are only focusing on the Indian market, but from day 1 we were very clear that we are going to mitigate our risk by focusing on above markets also and all the tie ups we are having whether it is Europe or whether it is South East Asia these buyers and their prices are much better than what prices we fetch in India and they are consistent and whatever orders we have in pipeline for Quarter 4 are repeat orders from Quarter 3 and Quarter 2 and even in Quarter 3 though our volume were very low, our margins were intact it was at 17.5% at EBITDA level. So, because of this we are sure that going ahead also we do not see margins under threat in fact we want to further improve your margins and Europe obviously contributes to higher margins.

Aasim Bharde: But is there a threat of competition increasing in this particular market segment given the fact that you are enjoying better margins, what is the competitive advantage that you would be having?

Sanidhya Mittal: We are in this industry for the last three decades and my father he started his career with Peeling. So, we have a lot of experience within the company, we know how to peel, what to peel and also our next year we will have an edge compared to any other manufacturer because we will start our own forest operations as well. So, our sourcing end will be much better compared to anyone else who is buying from the market in Gabon.

Aasim Bharde: Is there a quality difference between the veneer that you are supplying to Europe versus India and South East Asia what explains the premium?

Sanidhya Mittal: So, I think there is a difference in terms of what they need in terms of the thickness and in terms of the sides and yes that is the main difference

Mukesh Agarwal And what we supply to European market those sizes are different from what we supply to Indian market and the South East Asian market because the new unit is

basically to cater European market and those sizes are totally different as compared to South East Asian market.

Aasim Bharde: Is there a different set of machines involved in this process to get the different sizes?

Rajesh Mittal: For European it is different set of machinery, but for South East Asia and the Indian market they are the same machineries.

Aasim Bharde: Sir, second question any indication of way your working capital days will settle by the end of FY20 or receivable, payable inventory from current levels?

Mukesh Agarwal: So, if you see at standalone basis our debtor days for the quarter is 89 days and working capital days is 63 days. We are targeting further improvement in this quarter anything by three to four days in the debtor cycle.

Aasim Bharde: And the inventory and payable is expected to stay stable at the current levels?

Mukesh Agarwal: So, in December inventory days were 40 days and creditor levels were 66 days. So, I think creditor level will be in that range only 66 to 70 days and there can be some improvement in the inventory days by the end of the year so that will help us in improving our net working capital cycle days. So, in that case there will be improvement in debtor days and inventory days so net working capital cycle can improve by four to five days by end of the year.

Aasim Bharde: And any debt repayment plan for the year?

Mukesh Agarwal: Yes, we have debt repayment plan so if you see long term debt at standalone level we have Rs. 42 crore and short term is Rs. 108 crore, total debt in India is Rs. 150 crore and in Quarter 4 also we have a repayment of around Rs. four to five crore in long term debt.

Moderator: Thank you. The next question is from the line of Balachandra Ramani from Crest Wealth. Please go ahead.

Balachandra Ramani: I just have one question is the lower end of the plywood getting replaced with MDF?

Sanidhya Mittal: I think it is very difficult to say whether it is getting replaced or not, but in the lower end as a company we see there is a huge potential because we were never present there we have only been there for the last 1 and half years. So, we look at that segment of the opportunity where we can convert market shares from unorganized to organized.

Moderator: Thank you. The next question is from the line of Gaurav Agrawal from Bowhead. Please go ahead.

Gaurav Agarwal: Sir, just wanted to check a few numbers I joined a call a bit late so what is your guidance for the full year in for FY20 and how are you seeing next year FY21 in terms of sales growth EBITDA margin etcetera?

Mukesh Agarwal: So, on a standalone basis we are seeing a growth of close to 4% growth so Indian business we are getting Rs. 1325 to 1327 crore and from the Gabon business we

are targeting for the year Rs. 145 to 150 crore whereas we achieved Rs. 105 crore on consolidated basis. So, at the revenue level our target is for Rs. 1475 to 1480 crore on a console basis and for margins on the standalone basis 11.1% at the EBITDA level and Gabon margins 17.5% to 18% and at console level 11.8/11.85%.

Moderator: Thank you. The next question is from the line of Aasim Bharde from IDFC. Please go ahead.

Aasim Bharde: Sir, can you give an update on your plywood joint venture?

Mukesh Agarwal: We have two equity participation in Bareilly one for the premium product and second for the door and film-faced plywood. So, we are expecting the production from premium plywood unit in early Quarter 1 and door and film-faced plywood in early Quarter 3 next year.

Aasim Bharde: Any revenue target from that end?

Mukesh Agarwal: So, at peak both units can contribute Rs. 110 to 115 crore at each of the unit at Greenply levels and that can be after 2.5 years after the starting of the plant.

Moderator: Thank you. Ladies and Gentlemen as there are no further question from the participants. I would now like to hand the conference over to the management for closing comments.

Rajesh Mittal: I would like to thank you all for taking the time to participate in this call. We look forward to speaking to you again and post the announcement of our Quarter 4 FY20 results and would be happy to also respond to any queries you may have in the interior. Thank you very much.

Moderator: Thank you very much sir. Ladies and Gentlemen, on behalf of Greenply Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.