



## Greenply Industries Limited

### Q4 and FY19 Earnings Conference Call Transcript

#### May 31, 2019

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**Moderator** Good day ladies and gentlemen and a very warm welcome to the Q4 and FY19 Earnings Conference Call of Greenply Industries Limited.

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 Q4 and FY 2019 Conference Call. We have with us today Mr. Rajesh Mittal – Managing Director; Mr. Shobhan Mittal – Joint Managing Director & CEO; and CFO of the company – Mr. V. Venkatramani.

Before we begin, I would like to state that some statements made in today's discussion may be forward-looking in nature and may involve risks 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. Rajesh Mittal to begin the proceedings of the call. Thank you and over to you sir.

**Rajesh Mittal** Good afternoon friends and welcome to everyone present here and thank you for joining us today in the Greenply operating and financial performance of Q4 and FY19. I will talk briefly about the performance of our business before passing it on to Mr. Venkatramani, CFO, to run you through the numbers for the quarter. Friends, quarter 4 plywood revenue increased by 24.5% to Rs. 380 crores compared to the Rs. 305 crores in the corresponding quarter. MDF revenue increased by 21.3% to Rs. 127 crores compared to Rs. 105 crores in the corresponding quarter. Gross margins were lower by 340 basis points at 41.4% due to price reductions and change of domestic-export mix in MDF. EBITDA margin fell by 70 basis points to 13.2% due to reasons mentioned – fall in gross margin and low capacity utilization in Andhra MDF plant which stood at 30% for the quarter. Staff costs were higher at 11.1% compared to 10% in previous corresponding quarter which is expected to reduce in future with increased revenues from Andhra MDF unit.

Friends, Gabon unit improved its performance during the year. We achieved revenues of \$18.35 million excluding sales to Greenply India and EBITDA margin of 16.06%. We are targeting sales of \$31 million during the current financial year of FY20 excluding sales to Greenply India with EBITDA margin of 18% plus. Friends, as you know, we have a stable Central Government and we are hopeful that with stricter



implementation of GST and e-way bill system, unorganized players will be forced to increase prices leading to a level playing field for organized players.

Although our challenges as a company continue to lie in the MDF segment, we forecast strong growth in plywood. However, with capacity additions slowing down and price wars coming to an end, we are hopeful of a positive outlook for the company overall.

Friends, I would now like to hand over to Mr. Venkatramani for the financial numbers.

**V. Venkatramani**

Good afternoon everyone. I thank you for joining us to discuss the Q4 and FY19 Financial Performance of Greenply. In quarter 4, our top line was up by 21.5% compared to the year-on-year quarter. Revenue growth of 24.5% was attributable to plywood which encompasses over 74.6% of the business. MDF revenues were up by 21.3% leading to an overall growth in revenues. In quarter 4, our gross margins fell by 340 basis points as was covered by Mr. Mittal in his opening remarks. This was primarily due to price reductions and change in domestic-export mix in the MDF segment. Average realizations of plywood, however, improved to Rs. 220 per square meter in quarter 4 compared to Rs. 217 per square meter in the corresponding year-on-year quarter. MDF realizations were down by 25.4% at Rs. 19,343 compared to the corresponding figure of 25,954 in the year-on-year quarter. Operating margins for the quarter were down by 70 basis points at 13.2 primarily due to low capacity utilizations at the AP MDF plant, price reductions, and change of the domestic-export mix in MDF.

Profit after tax was down by 17.3% at Rs. 27 crores compared to Rs. 32.6 crores in the corresponding quarter of FY18. Our CAPEX spends in FY19 amounted to Rs. 145 crores comprising of Rs. 118 crores in AP, Rs. 13 crores in the UP plywood plant, and Rs. 14 crores for the Gujarat Decorative Veneers unit. Our working capital turnover days reduced by 17 days at 62 days compared to 79 days in the immediately preceding December quarter. Our net debt-to-equity now stands at 0.72 compared to 0.71 as on 31st March 2018.

That concludes my presentation. I would now request you to open the floor for Q&A session.

**Moderator**

Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade**

First question just a clarification. How much is the GST refund for the fourth quarter in each of these 2 segments?

**V. Venkatramani**

As far as the plywood segment is concerned, we had about Rs. 2.4 crores of GST refund and for the MDF segment, it was about Rs. 4 crores.

**Achal Lohade**

And for the full year if you could also help with that number, sir?

**V. Venkatramani**

It was about Rs. 12 crores in plywood and about Rs. 10 crores in MDF.

**Achal Lohade**

This is part of our EBITDA number. Is that right understanding, sir?

**V. Venkatramani**

That is correct. It is part of the EBITDA.

**Achal Lohade**

Similarly, with respect to FOREX, the FOREX gain or loss is largely to do with the MDF. Is that right, sir?

**V. Venkatramani** That's correct, with regards to the borrowings for the Andhra MDF plant.

**Achal Lohade** And that is also part of our EBITDA numbers.

**V. Venkatramani** That's correct.

**Achal Lohade** In terms of the ply business, the growth of 24% in terms of volume is extremely robust. Can you help us understand what is the industry growth for the quarter or for the full year and have we gained market share from the unorganized or from the organized players?

**V. Venkatramani** If you look at the overall industry, growth would have probably been in low single digits, probably less than 5%. However, 2 factors contributed to the strong growth in the Greenply plywood business. One is the stricter implementation of the e-way bill system whereby unorganized have been forced to take some increase in prices and that has contributed to a more level playing field for the organized players and Greenply has been concentrating on building a strong brand over the past few years and now that is contributing to a strong growth in the volumes.

**Rajesh Mittal** Apart from that, one reason is we had introduced last year the low-end plywood that had given close to Rs. 32 crores to our top line as well as decorative business also. The important part was that we had introduced a loyalty program 5 years back for the influencers. That is having a positive impact on our plywood sales. Our premium range of products has also seen a good growth.

**Achal Lohade** Can you help us with the mix with respect to the premium and non-premium for FY19 as well as FY18, sir?

**V. Venkatramani** For FY19, out of the total sales of 61 million, premium contributed 40.4 million. The corresponding number for FY18 was, premium was 34.4 million out of 51 million. While the mid segment and the lower segment contributed to about 24% growth in volume numbers, premium contributed about 17.3% growth in volume numbers.

**Achal Lohade** That is extremely heartening, sir, given the other listed company reported kind of a negative growth. Sir, on the MDF front, can you help us with the export, what is the volume and revenue for the quarter and for the full year, sir?

**V. Venkatramani** For the 4th quarter, export volumes were 19,100 cubic meters. The value of that was 24.5 crores at a realization of 12,864. For the full year, export volumes were 42,981 cubic meters with sales value of 60.3 crores and average realization of Rs. 14,035.

**Achal Lohade** Of that, how much is from the south?

**V. Venkatramani** Exports are primarily from the south. Possibly out of the 43,000 cubic meters, about 5000 cubic meters would be from the Uttarakhand plant.

**Moderator** The next question is from the line of Jaganathan from Centrum Broking. Please go ahead.

**Jaganathan** Just one query on this MDF plant in Andhra Pradesh that considering there is a change in the government and lots of news coming about developing policies about nullifying some of the policies of the previous government, anything that you are hearing considering we were getting government grant and support and incentives. Any thoughts on that?

- V. Venkatramani** We have still not received any government grant or revenues in the 9 months of operation that we had in FY19 and I don't think we are expecting any substantial grants going forward also apart from the grants for the capital spend which would be close to about Rs. 15 crores. We are also entitled to refund of the SGST component for the sales within Andhra Pradesh which could possibly be about 10% of the total Andhra MDF revenues and Re. 1 subsidy on the power cost per unit. There is nothing substantial that we are expecting from the government.
- Jaganathan** Even if new government changes the policies, it won't impact materially. That's what you are saying, right sir?
- V. Venkatramani** I don't think they will do away with the policy completely. They could possibly make some minor changes, but I don't think they would completely reverse a government commitment. I don't think they will scrap it completely.
- Shobhan Mittal** I think what the question was that if we may be getting any additional benefit? Am I correct?
- Jaganathan** Actually, the question comprises both. Under new government, are we expecting anything better?
- V. Venkatramani** If the new government announces any new schemes, that will not be applicable for projects which have already started production. It will only be for new projects which are commenced after the announcement.
- Jaganathan** When will be the full effect of this new project will appear in the financials in terms of capacity utilization and financial impact?
- V. Venkatramani** We had about 30% capacity utilization in the 9 months of FY19 and we are targeting a 60% capacity utilization in FY20.
- Jaganathan** Once that happens, I think the revenue mix will change, more towards MDF, I believe.
- V. Venkatramani** It won't really make a significant difference because we are also having a strong growth in plywood. Although in volume terms, the MDF business will contribute significantly in FY20, but since plywood values per truck are far higher, possibly in value terms, there will not be a significant change in the mix.
- Moderator** The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta** Sir, just wanted to understand on this demerger side. Any update on the demerger when is it going to happen?
- V. Venkatramani** The next hearing of the NCLT is on 27 June and I think we can expect the final order on that date.
- Pranav Mehta** So, over the next 2-3 months, the demerger should happen, right?
- V. Venkatramani** Once we get the NCLT approval, then it is just a matter of filing the order with the Registrar of Companies and then the demerger process is completed. Once that is done, there will be the listing process for the Greenpanel shares which would possibly take a timeline of about 3 months.

**Pranav Mehta** On this plywood front, what is currently the difference between let us say cheap plywood and MDF. Has the pricing differential been coming down in the last 1 to 1-1/2 years?

**V. Venkatramani** It has come down a bit in the March quarter when unorganized were forced to take a hike in prices because of stricter implementation of the e-way bill system. But yes, I think MDF would still be at a premium of about 6% to 8% compared to cheap plywood.

**Pranav Mehta** What about the imported MDF and domestic MDF? What would be the pricing differential?

**V. Venkatramani** There are 2 grades in MDF. One is the higher thicknesses above 6 mm and one is the thicknesses up to 6 mm. In the higher thicknesses, we have anti-dumping duty. So, there is a price difference of about 8% to 10% with domestic manufacturers having that premium. As far as the lower thicknesses are concerned, since there is no anti-dumping duty, there the price difference would probably be closer to 25%.

**Pranav Mehta** Sir, if I am not mistaken, this anti-dumping is going to end by FY21, right?

**V. Venkatramani** I think it is probably FY22, but going on past experience, I would say it would probably be rolled over for the next 5 years because the basis of anti-dumping is that those manufacturers have been selling below their cost. If that aspect does not change significantly, when the matter comes up for review after 2 years and those manufacturers cannot establish that they are selling above their cost of production, which if it happens would again reduce the price difference between domestic and imports. Then, anti-dumping duty will continue to be imposed.

**Pranav Mehta** Sir, on the plywood front, the pricings that you are talking about on the unorganized side, are they sustaining or have there any rollbacks been seen in the last 1 to 2 months?

**Rajesh Mittal** There is some price pressure, specifically in northern part of India. The cost has gone very high, specifically in poplar species. So, they are in tight position now. That is one reason. The second reason is they don't have circulation of money also. They are getting late payment. So, they are in tight position, the unorganized, specifically in northern India.

**Pranav Mehta** So, are you seeing any shutdown of unorganized manufacturers or are they curtailing production or any such thing? And is this likely to sustain?

**Rajesh Mittal** Yeah, they have cut their production and we are also hearing the news of certain persons having shut down their productions and factories also, but for sure they have cut the overall production in North India.

**Pranav Mehta** Sir, the issue of raw material that they are facing, will it sustain over the next 1 to 2 years? Is the supply a major problem?

**Rajesh Mittal** Supply will be a major problem in the next minimum 3 years' time. In North India, it basically depends on 2 species. One is poplar and the other is eucalyptus. Specifically, poplar is being used by most of the unorganized people. But that price has gone up. It is a cycle of 4 to 5 years. They will have this problem for the next 3 years minimum.

**Pranav Mehta** On the MDF front, are the prices in the international market correcting or are they remaining stable for your exports mainly?

**V. Venkatramani** They have corrected over the past 1 year. I think prices were about \$190 per cubic meter about a year back and now they are around \$165 to \$170 per cubic meter. So, definitely there has been price corrections during the past year.

**Pranav Mehta** Are you seeing any further prize correction here or should they now become stable?

**V. Venkatramani** I think we are close to rock-bottom prices. We may not see a significant increase in prices during the current year but I think prices will start to inch up.

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

**Karan Bhatelia** Sir, if you can break up the plywood revenues of Rs. 1,372 crores into premium category, mid category, and low-end category in value terms and also YOY?

**V. Venkatramani** For premium, total sales were about Rs, 1,012 crores. It was Rs. 310 crores for medium segment and about Rs. 32 crores for the lower segment.

**Karan Bhatelia** And YOY?

**V. Venkatramani** Year-on-year, premium was about Rs. 861 crores and mid was about Rs. 274 crores.

**Karan Bhatelia** Sir, how are we seeing on the CAPEX front for FY20 and FY21?

**V. Venkatramani** We are not looking at any CAPEX in FY20. Regarding FY21, we will probably be taking a decision after Q2.

**Moderator** The next question is from the line of Jaganathan from Centrum Broking. Please go ahead.

**Jaganathan** Considering the new government, how you see now the demand revival can be expected considering things have been slow for some time? Any thoughts? Maybe very generic question but will be happy to hear from you.

**V. Venkatramani** I think infrastructure would be the prime contributor for overall growth in revenues and that will also possibly lead to an increase in the capital expenditure cycle, but yes, it is a process for which we don't think we will gain any significant increase in the volumes. Possibly, the effects of those efforts will be visible over a period of 2 to 3 years.

**Moderator** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade** Can you help us with the north plant and the south plant revenue EBITDA for the year?

**V. Venkatramani** The north plant revenues were Rs. 314 crores for the year and EBITDA in value terms was Rs. 71.4 crores. For the south plant, revenues were Rs. 115 crores and EBITDA was Rs. 4.7 crores.

**Achal Lohade** Volume also as well, sir?

**V. Venkatramani** For the sales numbers, overall sales volumes were 1,97,763 cubic meters. 1,31,689 cubic meters came from Uttarakhand and 66,073 came from AP.

**Achal Lohade** Is the Forex element also included in this EBITDA number, sir?

**V. Venkatramani** Yes, Forex is included in the EBITDA number.

**Achal Lohade** And one has to adjust that to the south plant only, because for the borrowings?

**V. Venkatramani** Yes, that's correct.

**Achal Lohade** Sir, if I look at the quarter-over-quarter numbers 3Q to 4Q, I see that the volumes have gone up, realizations have dropped at the blended level for the MDF segment, and margins have actually come off a little bit. How do we explain this? I thought given the net realization drop, the margins could have dropped even more. In terms of the margins, how are you looking at for FY20 for both north and south plants? And what is the utilization in 4th quarter?

**V. Venkatramani** For the 4th quarter, we had utilization of 73% at the Uttarakhand plant and 30% for the Andhra plant. And for FY20, we would be targeting capacity utilizations of about 80% for Uttarakhand and 60% for the AP plant and blended EBITDA margins of about 17%.

**Achal Lohade** In terms of the MDF prices, how much has been the decline for the domestic price in the 4th quarter? And has there been any price increase from 1st of April, because we heard in the market that there could be a price increase which has happened by the competition?

**V. Venkatramani** Not really. Domestic realizations were down by about 6% for the quarter and there was also a change in the mix both in terms of domestic-exports and also between plain and pre-lam. The change in domestic-export mix was 29% of the total volumes against 22% in the earlier quarter. And the plain and pre-lam while I already mentioned that plain domestic realizations were down by about 6%, although the pre-lam realizations were stable and flooring realizations were up by 1%.

**Achal Lohade** What is the tax rate one should build for FY20 and FY21 for both the businesses, ply and MDF?

**V. Venkatramani** It would depend basically on whether we are filing a single return or the demerger process is complete and we file 2 independent returns. A lot would depend on that.

**Achal Lohade** But if we were to file 2 independent returns given the timeline we are looking at, probably 2 independent returns?

**V. Venkatramani** I think in that case, Greenply would have a tax rate of about 28% to 30% and Greenpanel would have a tax rate of about 22%.

**Achal Lohade** Just one data point, if you could help with respect to Rudrapur, ply unit specifically, how much would be the revenue EBITDA for the year? And what is the capital employed as of 31st of March?

**V. Venkatramani** I will mail you those figures Achal.

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

**Karan Bhatelia** One more follow-up from my end. Have we received the entire foreign borrowings for the new Andhra Pradesh plant?

**V. Venkatramani** Yes, we have.

**Karan Bhatelia** From when can we expect the repayment?

**V. Venkatramani** The repayment has already started for one of the borrowings. The first repayment was made in April for the loan from the German Bank, about 2 million euros.

**Karan Bhatelia** By when are we going to repay the entire sum of the foreign borrowings?

**V. Venkatramani** I think we would be repaying about 4 million euros of the German Bank annually starting from the current year. And then we have a ECB of 11 million USD from Standard Chartered Bank. That will be repaid in quarterly installments over a period of 5 years starting from the next financial year.

**Karan Bhatelia** So, the rate of interest for the Standard Chartered Bank is somewhere around 3.5% to 3.7% and the same for the euro loan?

**V. Venkatramani** That borrowing is now fully hedged. So, the interest rate is closer to 8% including the hedging cost.

**Karan Bhatelia** From the Standard Chartered Bank. And for the euro loan?

**V. Venkatramani** For the German Bank, the interest rate is 0.5%.

**Moderator** The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

**Sriram Rajaram** What would be your equity for the new entity, Greenpanel?

**V. Venkatramani** The capital will be the same as Greenply since we are issuing 1 share of Greenpanel for every single share held in Greenply and the overall net worth would be about Rs. 670 crores.

**Moderator** The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

**Bhavesh Chauhan** Sir, my question is on the long-term outlook of MDF. What we understand is that in the southern region, there is a threat of imports and the other countries are much more competitive in producing MDF than Indian counterparts. So, how do we make projected returns of over 15% in MDF business? This is like a longer-term thing. I understand that in the near-term, we have challenges in terms of oversupply in the domestic market itself.

**V. Venkatramani** We are already facing challenges from imports. Imports contribute somewhere between 2,50,000 to 3,00,000 cubic meters on an annual basis, and I don't think it is a sustainable activity because currently those manufacturers are selling in India below the cost of production. That is why there is an anti-dumping duty. And once demand starts to improve in their home countries and Japan which is again a major consumer of MDF, we think that the activity of those exporters to India will come down significantly. And we also expect that over a period of 12 to 18 months, anti-dumping will also be imposed on the thin MDF which again would increase prices for Indian importers and lead to a more level playing field for the domestic manufacturers.





- Bhavesh Chauhan** Sir, in MDF, can we sell it to the retailers just like plywood? We have a brand in ply segment, but in MDF, I understand it is more B2B.
- Shobhan Mittal** In MDF, the standard MDF is very much B2B but now we have for the past sometime been trying to counter the unorganized ply segment by launching various products like lower densities and smaller sizes which are directly in compete with the unorganized ply segment. In this segment, there are 2 benefits. One benefit is of course that imports don't compete in this segment primarily because they only supply the standard sizes, and standard densities, the costs are prohibitive against the unorganized ply segment. What we are trying to supply in this segment are the products which are competitive even with the case of these unorganized segments billing at 40% and 50% invoice values. Even at those levels of invoicing with the GST, our product becomes competitive with the full GST pay. So, we are really trying to go into this segment. We are very optimistic about this segment, and in this segment, it becomes a more B2C model where the unorganized plywood retailers play a very important role.
- Bhavesh Chauhan** So, as of now, how much percentage would be the B2C in MDF?
- Shobhan Mittal** The problem is it is very hard to reach because we are primarily dealing completely through a retail network even when it goes to OEMs and contractors, but if you talk about this specific product segment, I think today between the Ecolite and Extralite products that are going in the segment, we should be doing close to about 20% to 22% of sales from this particular segment.
- Moderator** The next question is from the line of Aasim Bharde from IDFC Securities. Please go ahead.
- Aasim Bharde** Sir, 2 questions. One on the MDF market. Could you give us an update on how much additional MDF capacity is coming in from competitors and also are there any unorganized players entering the MDF market?
- Shobhan Mittal** There are certain additional capacities coming in. The only large capacity that is coming in is Rushil Decor which is in the south of India and I think the capacity is between 180,000 to 200,000 cubic meters per annum. That is the one large line that is coming into the country. There are a couple more very small unorganized players entering by way of secondhand Chinese plants being imported into the country. There are 3 or 4 of these. Some are focused on thick panels, some are focused on thin panels, but put together, the capacities are not significant. There are some at 30,000 to 40,000 cubic meters an annum up to 50,000 to 60,000 cubic meters an annum.
- Aasim Bharde** But is this a kind of a long-term threat that more smaller players given that they are being squeezed out in the plywood market, would they also be looking to import from China the secondhand machines and enter the MDF space?
- Shobhan Mittal** No, because one of the barriers is even though we may term this as an unorganized MDF segment, but the investments are still fairly substantial compared to the unorganized segment of the plywood. Even 50,000 to 60,000 cubic meter MDF plant today we are looking at an investment of at least Rs. 70 to 80 crores. So, in my opinion, that is not something that is easily doable by many unorganized players.
- Aasim Bharde** You mentioned that you are targeting blended EBITDA margin of 17% in MDF between the 2 plants. Could you give us a rough breakup of this between the North and the South India plants?

**V. Venkatramani** It would be about 21.5% to 22% for the northern plant and about 15% for the Andhra plant in the domestic space and 5-6% for AP exports.

**Moderator** The next question is from the line of Neil Bahal from Negen Capital. Please go ahead.

**Neil Bahal** Since there is no CAPEX in FY20, what could be our free cash flow for FY20? I want to ask from the point of view of what could be our debt look like at the end of FY20?

**V. Venkatramani** We will be repaying a substantial amount of debt, possibly about Rs. 100 crores in FY20.

**Neil Bahal** That's a good number. Another question is on the MDF pricing. What is your break-even price for MDF? Considering you are selling in the export market at 13,000 to 14,000, are we making a loss doing this?

**V. Venkatramani** We are selling at marginal cost in the export market. I would say the benefit here is we are reducing the EPCG liability that we have incurred for the imports of machinery. That is the primary benefit in exports and it is also helping us to achieve a higher capacity utilization which is contributing a small amount to the fixed costs.

**Neil Bahal** Next question is that if our utilization in MDF what you said will go from 30% to 60% in the AP plant, the EBITDA margin should go up also?

**V. Venkatramani** If you look at it, we had a very low EBITDA from the MDF plant in the current year and we are targeting a 15% EBITDA margin from the Andhra plant next year. That would be the primary reason the substantial increase in the capacity utilization.

**Neil Bahal** Has the pricing somewhat improved in MDF in Q1 compared to Q4 so far?

**Shobhan Mittal** I don't think the pricing has improved as such, but there is definitely not any further reduction. Century has taken a slight price improvement in the current quarter and I think going forward, we may see some slight improvement if not across India, at least in certain pockets of India. Looking at the competition and looking at the import threat, certain pockets which are more insulated from imports may allow certain price improvements in MDF.

**Neil Bahal** So, in Q1, there is no reduction in our pricing at least?

**Shobhan Mittal** That's correct.

**Neil Bahal** The new plant in AP coming from Rushil, do we have to fear any impact of price cutting whatever from them?

**Shobhan Mittal** No, I don't think we have to take an impact of any price cut from them because Rushil is already at a lower pricing level than us and I think they are also trying to play the game of competing with the imports in the south of India. So, I don't think that is going to result in any price reductions in the south of India on account of that plant.

**Neil Bahal** That is good to hear. Sir, on the plywood front, for FY20, can we expect 10% to 15% kind of volume growth or can it be better than that?

**V. Venkatramani** We are targeting a 10% to 12% volume growth in FY20 with small margin improvement of about 50 to 60 basis points.

**Moderator** The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.

**Abhijit Sinha** Basically, I just wanted to understand that over the last year, we had 2 major problems. One was the MDF demand and another was the interest cost fluctuations because of the foreign currency. How can we avoid that going forward and do you think we could actually face similar problems going ahead if the prices are not stable?

**V. Venkatramani** To answer the first part of your question, we think that prices will probably remain stable this year and like Mr. Mittal mentioned, Century has taken a small price hike from the current month. So, possibly we could be looking at a small improvement in prices.

And the second part of your question on the Forex element in interest cost, we have already hedged one of the borrowings which is a US\$11 million loan from Standard Chartered Bank, and if you look at the second part, the euro loan from a German Bank, that is currently at about 0.5%. We had a discussion with our banker. They are not looking at any significant volatility in the euro as compared to the rupee. So, we don't think we run a major risk of Forex losses as far as the euro borrowing is concerned.

**Abhijit Sinha** Sir, over the previous calls also, you had mentioned that we don't see the MDF demand coming up in till at least 1-1/2 to 2 years and our interest cost for the loan would be for the next 5 years. How would we manage that? From the plywood revenue?

**V. Venkatramani** It will be a mix of plywood and MDF revenues. If you look at the Uttarakhand plywood and MDF plants, they are fairly stable plants that have been operating for about 10 years now and with the expected improvement in revenues both on plywood and MDF. The Andhra plant has also stabilized now. Although we started commercial production in July, the plant was in the control of the engineers from the German plant. It got stabilized only in the first week of February when they completed the testing of the entire plant producing all kinds of thicknesses and densities. Now, the plant is entirely stable and we are looking at a significant improvement in the volume numbers during the current year. So, I don't see any risks as far as our cash flows are concerned.

**Abhijit Sinha** Is that the reason why our capacity utilization is doubling from 30% to 60%?

**V. Venkatramani** That's correct.

**Moderator** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade** Can you help us with the price difference between us and the peers with respect to MDF?

**Shobhan Mittal** When we say peers, I think in the organized segment, it would be primarily Century and Action. We are all within a 2% to 3% gap in terms of pricing across the country.

**Achal Lohade** Just to clarify, in terms of the interest cost, what kind of interest cost one should build for FY20 given we have hedged part of the loan but the other part is unhedged and which is at a substantially lower interest rate. So, what is the interest cost one should build for FY20, sir?

- V. Venkatramani** For which business? The entire Greenply or are you looking at just the MDF business?
- Achal Lohade** For both actually, ply and the MDF business put together.
- V. Venkatramani** Including, I would be looking at building a small hedge for the Forex part which would be roughly about Rs. 12 crores on an annual basis. With that, our interest cost would be possibly about Rs. 32 to 33 crores as far as the Greenpanel plywood and MDF business is concerned. And for the Greenply plywood business, we will be looking at an interest cost of about Rs. 15 crores for FY20.
- Moderator** As there are no further questions, I now hand the conference over to the management for their closing comments.
- Rajesh Mittal** Thank you friends. Thank you for joining. If there is any query, please be in touch with Mr. Venkatramani. He will mail all the details to you.
- V. Venkatramani** Thank you very much for taking out time to attend this call.
- Moderator** Ladies and gentlemen, on behalf of Greenply Industries Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.