



## Greenply Industries Limited

### Earnings Conference Call Transcript

#### August 2, 2017

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**Moderator** Ladies and Gentlemen, Good Day and Welcome to the Greenply Industries Limited Q1 FY18 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 telephone. 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 Greenply Industries Q1 FY18 conference call. We have with us today the CFO of the company Mr. V. Venkatramani. Before we begin, I would like to state that some of the 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 you earlier. I would now like to invite Mr. V. Venkatramani to begin the proceedings of the call.

**V. Venkatramani** Thank you Gavin. A very warm welcome to everyone present and thank you for joining us today to discuss Greenply's operating and financial performance for the first quarter of 2018. In Q1, our top line was lower by 6% compared to the year-on-year quarter due to extensive destocking by our plywood dealers. Degrowth in plywood was about 13.6% whereas MDF top line grew by 9% and this resulted in an overall degrowth of 6% at the company level. Growth in MDF was positive, however, currency losses of Rs. 8.58 crores on long-term borrowings for the new MDF plant in Andhra Pradesh impacted the MDF margins as well as the overall margins. Our plywood business for the quarter as anticipated came under pressure owing to massive destocking by our dealers. We, however, expect this to be a temporary phenomenon and expect improvement in volumes starting from Q2 and to gain momentum from third quarter.

On the CAPEX front, Gabon factory in West Africa for veneer production has already commenced operations of three peeling units and the balance three lines are expected to be commissioned in November or December 2018. We are also in the process of setting up of a 13.5 million square meter plywood manufacturing unit in UP, which is expected to commence production in second half of FY19. Our decorative veneer unit in Gujarat is expected to start operations in second quarter of FY19. Given the challenges leading to a lower top line, our gross margins expanded owing to better capacity utilizations and improvement in domestic MDF realization. Domestic MDF realizations improved by 4%, but overall realizations were flattish because of a steep 73% volume increase in MDF exports where the realizations are substantially lower compared to domestic MDF realizations.

In Q1 FY18, our gross margins improved by 230 basis points year-on-year to 47.9% due to better capacity utilizations. Average realizations in plywood were lower by about 4% partly due to the end of excise exemption at the Pantnagar unit. Exports of MDF saw a steep increase in volume to 6,009 cubic meters at an average realization Rs. 15,095 / cubic meter. We will continue to invest in brand building which in turn enables us to maintain our strong market share. Our ad expenditure in the quarter was 3.7% compared to 3.3% in the corresponding quarter. Operating margins were impacted and were down by about 100 basis points at 14.5% owing to volume degrowth in the plywood segment and currency losses in the MDF segment on long-term borrowings for the new MDF plant. Capacity utilizations in the quarter were 101% for plywood and 117% for the MDF segment compared to 111% and 106%, respectively, in the corresponding year quarter.

Profit after tax was down by 10% primarily due to the currency losses. In continuation of our efforts towards better working capital efficiency, working capital days have improved by 2 days to 45 days compared to the year-on-year quarter. Our debt equity ratio now stands at 0.55 as on June 30<sup>th</sup> owing to incremental debt taken towards our CAPEX acquirements. That concludes my presentation, I would now request you to open the floor for the Q&A 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 Anshuman Atri of Haitong Securities. Please go ahead.
- Anshuman Atri** My question is regarding the plywood segment, can you throw some light as to how has the industry seen the pressure, how is the unorganized, I presume they would have done worse and how is the MDF segment able to cope up in this environment as compared to the plywood segment?
- V. Venkatramani** Two reasons, one there is no unorganized segment in MDF, and secondly, MDF dealers do not normally carry high inventory levels, whereas plywood dealers could be holding inventories of around 30 to 45 days, MDF dealers normally carry inventory of about 10 to 12 days, so there was no major destocking in MDF that is possibly the reason why we could grow the MDF top line. As far as plywood, yes, the unorganized would definitely have been hit far more than organized players, but overall we think it is one quarter phenomenon. We have seen improvement in plywood during the current month and we expect that it will carry forward although we still think that high-growth levels will probably be possible only from the fourth quarter and real growth will possibly be coming back in FY19, so we stick to our 5 to 7% growth guidance in top line for the current year.
- Anshuman Atri** In the MDF segment, what type of exports were there in the last year in the same quarter?
- V. Venkatramani** We had exports of about 6,009 cubic meter in the current quarter compared to 3,472 cubic meter in the corresponding quarter.
- Anshuman Atri** Has there been any price hike during the quarter because despite higher exports, the realizations have been largely flattish?
- V. Venkatramani** We had a 5% increase in prices, but we had passed on some extra discounts to dealers to ensure that they do not liquidate their stocks too much, so net realizations in domestic were higher by about 4.19%, and yes, you are correct the higher growth in exports volume of 73% contributed to flat realizations blended for domestic and exports.

- Moderator** Thank you. Our next question is from the line of Rahul Agarwal of ICICI Prudential Life Insurance. Please go ahead.
- Rahul Agarwal** Sir, first question is actually a bit of a comparison between the two listed big companies in this sector, so what we see is that last 3 to 4 quarters we have been continuously underperforming what Century has been giving, so how should we look at it going forward?
- V. Venkatramani** That is a very difficult question, you are correct that we have been lagging in top line growth especially in the plywood segment as far as comparison with Century is concerned, but the future is open to both. We are both organized players with strong brands and we expect a significant shift to happen from unorganized to organized over the next three years, so I think it will contribute to significant growth levels for both the companies.
- Rahul Agarwal** What we should consider is that this market share loss that has happened in the last three quarters should actually stagnate from the next quarter or should we kind of build in that we are not being that aggressive because of the market conditions or is there anything else to it?
- V. Venkatramani** We have been concentrating on conserving our resources because we are in significant expansion mode, which requires a lot of internal accrual to be ploughed back for the expansions, so we have been restricting the credit terms which does have some impact on top line growth, so as far as Greenply is concerned we will be sticking to the policy at least till we complete the major part of the CAPEX which should be done by second quarter of FY19.
- Rahul Agarwal** This is the MDF plant that you are talking about?
- V. Venkatramani** The MDF as well as the plywood plant which is coming up in UP, the decorative veneer expansion in Gujarat also.
- Rahul Agarwal** We should build in MDF basically from the third quarter of FY19, is that understanding correct?
- V. Venkatramani** Yes, that is the guidance we have given that we will be starting commercial production in September-October 2018, but our efforts will be to start the plant earlier to that.
- Rahul Agarwal** Century is coming up before that because they are just starting their commercialization in the next few months, so I wanted to understand what amount of exports will be there from that plant exactly?
- V. Venkatramani** We will be doing significant volume of exports from the new plant, we expect that overall about 30% to 40% of the production from the new plant will be exported.
- Rahul Agarwal** What kind of margins Sir, from the exports in India?
- V. Venkatramani** If we say that domestic margin is about 27%, we should be making about 13% to 14% margin on exports.
- Rahul Agarwal** Last question from my side is on this long-term borrowing thing which came up this quarter, so what is the exact quantum of this borrowing?

- V. Venkatramani** We have about € 32 million and USD 4 million borrowings for the new plant in AP, so we will be taking a call on the forward cover once the borrowing is completed and we have the full repayment schedule available with us.
- Moderator** Thank you. Our next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade** What I wanted to check is how has been the raw material prices for last few months, I believe last time you talked about marginal increase in the local timber prices, how has been the quarter as a whole and now at this point in time?
- V. Venkatramani** There has been some increase in prices in the March quarter, but prices have stabilized in the first quarter, so looking at the overall business environment where there are challenges in terms of top line growth and also significant drop in business in the unorganized segments, we expect raw material prices to be stable for the current year.
- Achal Lohade** There has not been much increase in the raw material prices you are saying in the June quarter, is that right?
- V. Venkatramani** There has been some impact on raw material consumption because of carry forward of inventory from the last quarter, but if we look at current prices definitely back to where they were before the increase in the March quarter.
- Achal Lohade** If I remember right, you talked about prices had bottomed at Rs. 4 a kg and last quarter it was somewhere around Rs. 6 a kilo?
- V. Venkatramani** There are two segments and timber prices are different for both the segments, so Rs. 6 is the plywood segment and Rs. 3 was for the MDF segment, so currently prices for the MDF segment are about Rs. 2.70 and about Rs. 5.5 for the plywood segment.
- Achal Lohade** In fact, it has marginally come off?
- V. Venkatramani** Yes.
- Achal Lohade** In terms of the supply or the availability of timber, is there any constraint, have you seen any?
- V. Venkatramani** There are no constraints, it is very comfortable.
- Achal Lohade** How about the unorganized players, we were hearing that the dealers actually stocked up unorganized or unbranded ply prior to the GST implementation or rollout, is that right understanding in your view, Sir?
- V. Venkatramani** Not very sure because if we look at the June quarter there was hardly any movement of inventory from unorganized manufacturers to the dealers, so even if there was any stocking in the March quarter it has come down substantially in the June quarter, so I do not think channel inventory remains a concern at this point of time. Definitely some challenges and concerns with respect to implementation of GST, but inventory is not a concern.
- Achal Lohade** In terms of the GST rate, we are at 28%, we were earlier hoping for 18%, what is the status have we represented the government, is there any hope?

- V. Venkatramani** We had made some representations, but at the moment I do not think the government is in a mood to listen to any representation, possibility they will look at the revenue inflows for a year or two before taking any decision on changes in rates.
- Achal Lohade** Sir, in terms of the price increase I am just specifically asking for ply segment at the moment have you taken any price increase or any price reduction in the quarter?
- V. Venkatramani** We have not taken price reduction or a price increase in the first quarter, but prices have changed in certain parts, especially the Eastern parts where VAT was earlier at 5% and now the GST which is replacing VAT is at 14%, so we have taken a price increase to cover the additional taxes but other than that we have not taken any price reduction or price increase in plywood in the first quarter. We are taking 2% increase in plywood prices from August 1<sup>st</sup>. In MDF, we had taken a 5% price increase in the first quarter, but out of that 1% was passed back to the dealers in the form of extra discount for inventory which they were carrying on GST implementation date.
- Achal Lohade** In terms of the demand at the secondary level or the end consumer level, has that been reasonable, has that also got impacted in your view in the last quarter?
- V. Venkatramani** Yes, if you look at the June quarter especially the plywood segment, destocking started from around the May 10<sup>th</sup> so there was an extensive impact across both organized and unorganized segments in the first quarter, but demand has started to recover in July and we hope that it will continue to improve over the next few months.
- Achal Lohade** Sir, our guidance of 5 to 7% growth is for the ply and MDF put together or it is only for ply segment?
- V. Venkatramani** It is at a company level blended for both plywood and MDF, we could may be have about 5% growth in plywood may be about 8 to 10% growth in MDF, so overall it should be somewhere in the 5 to 7% level.
- Achal Lohade** Is that capacity is the constraint in terms of the growth in your view or this is the industry growth in your view?
- V. Venkatramani** Capacity is not really a concern as far as the current financial year is concerned because it will take some time for demand to recover because of challenges and concerns with respect to GST implementation, overall business environment remains a challenge for the current year.
- Achal Lohade** Secondly on the MDF part in terms of the industry scenario you have been able to talk about what is the capacity in North, how much is sold domestically, what I am trying to understand is there any demand constraint at the moment which has to be created for us before we commission or is there any oversupply threat actually for the MDF that is what my question is, Sir?
- V. Venkatramani** Lot of capacities are coming, so Century, Green, Action are putting up substantial capacities during the current year and the next year, so there will definitely be some oversupply in the domestic markets for a period of two or three years till demand catches up in the domestic markets. We would be looking to export a substantial quantum of production from the new plant till demand improves in the domestic markets, but overall we think that with GST implementation and challenges increasing for the unorganized segment, the MDF growth could be faster with deeper penetration into the cheap plywood segment.

- Moderator** Thank you. We will take the next question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak** Sir, you just mentioned that the MDF market can grow faster, what is your own sense of the growth in MDF market over the next 2 to 3 years?
- V. Venkatramani** Over the next three years we expect substantial levels of growth, so with more organized players entering the industry, the popularity of MDF is definitely expected to increase, I think we could grow at rates between 15% to 20% during the next two years.
- Kamlesh Kotak** Sir, how has been the trend on the import side for MDF, is it being increased, has it decreased, how is it over the last?
- V. Venkatramani** It is pretty even as far as imports are concerned because the imports will come down only when the domestic capacities increase and as far as Action and Century are concerned, they are increasing capacities in the northern zone where imports do not really have a presence, so only after our new plant starts operation in AP we expect imports to reduce both in the southern as well as the western zones.
- Kamlesh Kotak** Sir, currently what would be the CIF value of imports in terms of per cubic meter if you can highlight in terms of our realization and vis-a-vis imports blended cost?
- V. Venkatramani** Our domestic realizations for plain MDF are about Rs. 26,000 per cubic meter, so imported MDF would be roughly about 14% to 15% cheaper compared to our realizations.
- Kamlesh Kotak** All cost including anti-dumping duty?
- V. Venkatramani** Sure.
- Kamlesh Kotak** Sir, secondly can you just update us what is the status of Myanmar ban, is it being still on or how it has been in terms of availability of face veneer from there?
- V. Venkatramani** We do not have much clarity on how Myanmar is going to adopt the revised changes in policy, the one-year ban which was imposed on felling of timber last year has been lifted, but now the Myanmar government has implemented a new rule that all loggers will have to supply their produce to the Myanmar Timber Enterprise, the government body, which will be the sole authority for selling timber to both government as well as the private sector, this will be a challenge to loggers as both their volumes and margins will take a substantial hit, hence it is to be seen going forward whether loggers are interested in supplying to the Myanmar Timber Enterprise, at the moment we have timber stocks which should last us still October or November this year and beyond that will depend on how things progress as far as Timber supplies are concerned.
- Kamlesh Kotak** Currently, our plant that is at standstill, it is closed?
- V. Venkatramani** It is not closed, like I mentioned we have timber inventories till October or November, so it is operating, but there is not much certainty on how things will happen. Once our inventory gets exhausted in October or November, we do not know whether there will be regular supplies of timber.
- Kamlesh Kotak** Then we will only be looking at Gabon as our sourcing, right?

- V. Venkatramani** No, at the moment we are procuring both from Myanmar and Indonesia, hence in case of Myanmar shutdown, it will be a blend of Gabon and Indonesia because our plant at Gabon is also operating at about 50%. We have installed only half the machineries in the first phase, the balance machinery will be installed in November or December this year, so yes, I think once the new plant is fully operational and everything is regularized as far as the operations at the plant are concerned, we will shift entirely to Gabon.
- Kamlesh Kotak** Currently Sir, out of 35,000 cubic meters we have commissioned half of it, right?
- V. Venkatramani** That is correct.
- Kamlesh Kotak** How much of that would be available to take care of our raw material requirement and how much we can sell outside once we have the full plant up and running?
- V. Venkatramani** Once the full plant is up and running and our UP plywood plant also starts operations, we would require approximately 50% of Gabon capacity and the rest can be sold in the market.
- Kamlesh Kotak** How much investment we have made, how much is still to be made there in Gabon?
- V. Venkatramani** We have invested about Rs. 35 crore both in terms of fixed and working capital and we expect to invest another US \$4 or \$5 million apart from investments in land which will be spread over three years.
- Kamlesh Kotak** How much CAPEX is for this UP and Gujarat plant and how much of that has been incurred, Sir?
- V. Venkatramani** For UP, it is about Rs. 115 crore and Gujarat is about Rs. 40 crore, we have spent roughly about Rs. 7 to 8 crore each.
- Kamlesh Kotak** It will be mostly in the next year the rest of the CAPEX would come?
- V. Venkatramani** No, for the decorative veneer unit in Gujarat most of the CAPEX will happen in the current year, but for the UP plant it will be split more or less 50-50 over both the years.
- Moderator** Thank you. Our next question is from the line of Rohan. Please go ahead.
- Rohan** Sir, just reconfirm some price increase which you are taking, we have first 5% you mentioned and effective was 4% after discount to dealers of 1%?
- V. Venkatramani** That is correct.
- Rohan** Sir, plywood you are mentioning 2% price increase you have yet to take or you have you taken?
- V. Venkatramani** We have announced from August 1.
- Rohan** In plywood also all the price increase will be fully transferred or it has to be compensated by some higher discounts by the dealer?
- V. Venkatramani** There will not be any increase in discounts at the dealer level.

- Rohan** This price increase is effectively passed on because of this GST ?
- V. Venkatramani** The price increase we take to compensate for increase in overheads.
- Rohan** This has nothing to do so far now with the GST?
- V. Venkatramani** It is nothing connected with GST. GST, we have passed on any increase in taxes primarily in the Eastern zone where VAT was earlier at 5% now SGST is 14%, so we have taken 8 or 9% increase in Eastern states to compensate for the increase in taxes.
- Rohan** Sir, how is the behavior in the unorganized sector, have they started taking any sort of price increases in the market?
- V. Venkatramani** Few of them have taken price increases in the range of 5% to 7%, but still they are adopting wait and watch attitude because the retail channel is quite confused on how things are going to operate under GST, I think it will probably be another quarter before the unorganized retail channel takes a decision how they will operate going forward.
- Rohan** This is early to talk about that how the unorganized sector is going to react on GST things. Sir, you mentioned that July month has seen a pickup after this destocking from the dealer by June end, so it has compensated completely or there will still be some weakness in the system if I overall look at cumulative sales in last four months?
- V. Venkatramani** We have not much clarity on the MDF segment, so pickup has been slower in July. As for as plywood is concerned, there has been a strong pickup in July and if things progress similarly in August and September, I think we will come out of the degrowth which happened in the first quarter, so considering both the first and the second quarter we should be positive on plywood.
- Rohan** Sir, you also mentioned that in MDF because of the shift towards from the low-end plywood segment towards MDF, the MDF category itself can grow at 15% to 20% over next 2 to 3 years that was for the industry or for Greenply?
- V. Venkatramani** I would say for the industry because the industry is also expanding, Century has set up a new capacity, Action is also expanding capacity, so overall there should be growth for the industry and there is no unorganized in MDF, so it is all organized players and given the competency, I expect overall growth to be positive for Greenply as well as the industry.
- Rohan** The share which MDF will gain will be on the cost of low-end plywood losing, if the MDF grows 20%, then that will be equivalent to loss to low-end segment where more unorganized players are there, am I right?
- V. Venkatramani** Sure, I think major growth will come from that.
- Rohan** Why this structured change itself, this unorganized or smaller player who are in the economy segment or low-end segment of plywood have a business threat because of MDF gaining?
- V. Venkatramani** I would say at the moment I do not think it will threaten the mid-segment although that could happen in the medium term over a period of 4 to 5 years, I think even the mid-segment plywood will face challenges but yes, if you look at the next 2 to 3 years, I think yes, MDF will make deeper inroads into the cheap plywood segment.



- Rohan** Sir, can you just give the number that what was the export share in MDF this quarter, percentage?
- V. Venkatramani** Exports was about 6009 cubic meters, so that is about 12% of our total MDF volumes.
- Rohan** Versus last year in the same quarter it was?
- V. Venkatramani** It was 3472 cubic meters, so if we look at overall value that was about 7% of overall volumes.
- Rohan** There is a huge difference between margin, 13% in exports and 26% in domestic?
- V. Venkatramani** That is right because export pricing is also substantially lower, our export prices would be at a discount of almost 40% to 45% compared to the domestic MDF.
- Moderator** Thank you. The next question is from the line of Rahul Kundnani of Mahindra Mutual Fund. Please go ahead.
- Rahul Kundnani** Sir, I just had one question on the import front, there is a gap of around 15% in the import prices, so once your plant comes up in South, can the gap be bridged with better logistics?
- V. Venkatramani** Today our freight rates for the southern zones are about 12% to 13% when we dispatch material from our Pantnagar unit in North, once the new plant starts operation in South there will be substantial savings in logistics, our freight cost will reduce by about 8% and people will not mind paying 6% to 7% premium for Greenply MDF compared to the imported MDF because, A, the quality is superior, B, there will be assurance of after-sales service, and C, there will be no challenges on the currency front which they faced when they import MDF, so I think that 6% to 7% premium we should be able to retain if we just pass on the savings in freight costs.
- Rahul Kundnani** Sir, just one question why does this premium, can that exist when you export that 30% of your new plant capacity, can that premium exist over there in that export?
- V. Venkatramani** Not really, if you look at it we are competing against international manufacturers in the export markets so although because of the Greenply's quality we get assured orders, but we have to match prices with other international manufacturer, so there is no premium as far as export is concerned. Exports are primarily to Middle East, Iran etc., which are very price sensitive markets, we are not looking at a possibility that we may have a premium in the export markets.
- Moderator** Thank you. We will take the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania** Sir, could you talk about how should one look at MDF emerges particular for this full year versus YOY?
- V. Venkatramani** We have still not got clarity on the refund mechanism because the excise exemption has come to a close with the implementation of GST. We have got partial clarity that the Central Government will pass on 58% of Central GST or 29% of Integrated GST, but the states will take a call on the balance 42%. At the moment no state has come out with clarity regarding the refund mechanism on their share, so overall I think looking at the current business environment and the

pricing increase we have taken in the beginning of the year, we should be able to maintain the margin.

- Rohit Dokania** This is assuming that this 42%?
- V. Venkatramani** We are not assuming that we will get the 42%, we are considering only 58% of CGST.
- Rohit Dokania** Sir, which means that let us say that the State Government also agrees for the rest 42% then there could be a margin improvement as well?
- V. Venkatramani** Sure. There could be a margin improvement or we might even decide to pass it on to the consumers, there could be both.
- Rohit Dokania** Also you highlighted that obviously because the new plant would be in South India, so there will be higher share of experts so what could be the margins that one should look at probably let us say not in FY19 because it would probably operate for half year, but let us say in FY20 assuming that 30, 35 odd percent let us say export share from that plant, because there will be no excise benefit out there as in sort of tax benefit?
- V. Venkatramani** We will be able to have a blended margin of about 23% to 24% for the MDF business considering both the Uttarakhand as well as AP facilities.
- Rohit Dokania** Your are talking of both facilities put together, this is not only for South?
- V. Venkatramani** Yes.
- Moderator** Thank you. Our next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.
- Akshit Gandhi** Sir, couple of questions, first in the MDF volume, if you can please share how much volumes we sold in the Southern region?
- V. Venkatramani** I do not have that details with me right now, I will give it you later.
- Akshit Gandhi** Also if I look, other income has jumped up significantly in this quarter, I think around Rs. 8 crore, if you can tell the source?
- V. Venkatramani** We had some extra refund of excise duty relating to our Nagaland unit based on a clarification issued by the Supreme Court, so that contributed about Rs. 6 crore extra which is highlighted in other income.
- Akshit Gandhi** Also the notes to account mentions about some Forex component in other expenses because of the borrowing for the new plant, if you could just highlight that how we have a Forex loss because I thought rupee appreciation should result in a Forex gain?
- V. Venkatramani** If you look at the rates when we availed of the borrowings, Euro was about Rs. 69 and as on June 30<sup>th</sup>, Euro was about Rs. 73 and we had close to about 32 million borrowings in Euros so that contributed to the overall currency losses. Out of the total currency losses, the extent to which it could be attributed to difference in interest rates between domestic and international rates that has been taken to interest and capitalized which is about Rs. 4.5 crore and the amount which

exceeds that, that is the balance about rs. 8.58 crore that has gone into the PL as currency losses.

- Akshit Gandhi** Also if you could highlight what would be our peak debt in FY19 end when we will have the UP plant and the new AP plant also, what would be our peak exit debt?
- V. Venkatramani** It would be somewhere in the region between Rs. 650 to 700 crore possibly closer to about Rs. 670 crore.
- Akshit Gandhi** If you could just highlight that out of the new AP plant, how much would be the equity and the debt contribution, is it changing?
- V. Venkatramani** There is no change.
- Akshit Gandhi** The debt cost would be roughly around 9 to 10 on this or is it lower?
- V. Venkatramani** Not really, including cost of forward cover, we think that blended borrowing cost for the new plant should be about 7.5%.
- Akshit Gandhi** The depreciation rate would be roughly around 5% to 6%?
- V. Venkatramani** Yes, I think for the AP plant annual depreciation should be in the range of about Rs. 32 crore.
- Akshit Gandhi** Lastly, how should we look at the tax rate for this year and next year?
- V. Venkatramani** The overall tax rate will be stable for the current year and from next year we should be back in MAT because of increased depreciation and investment allowance deduction from the new plant, so tax outflows will be in MAT.
- Moderator** Thank you. Our next question is from the line of Anshuman Atri of Haitong Securities. Please go ahead.
- Anshuman Atri** Sir, my question regarding CAPEX, how much we have done already in this quarter and what is the full year expectation?
- V. Venkatramani** As far as overall CAPEX for the Andhra plant is concerned, so we have invested about Rs. 450 crore, so we should be investing the balance Rs. 300 crore probably about Rs. 200 to 225 crore in the current year and about Rs. 75 to 100 crore in the next financial year. For the UP plywood expansion which is costing about Rs. 115 crore, I would estimate at about Rs. 55 crore this year and Rs. 60 crore the next year and for the decorative veneer expansion in Gujarat out of the total of about Rs. 42 crore, I would estimate at about Rs. 30 to 35 crore in the current year and the balance in the next financial year.
- Anshuman Atri** Other question is regarding this mid-segment where you would like to go for outsourcing, are we seeing increasing interest from unorganized players to tie up with the organized players like Greenply or is it?
- V. Venkatramani** The interest will definitely increase and even if we look at this quarter where we had overall about 11.5% degrowth in plywood volumes, but the mid-segment, the outsourced segment we had a volume growth of about 6%, so I think overall things remain positive for the outsourcing segment and with increased challenges for the unorganized segment with GST implementation more and more of them would be eager to tie up with organized players.

- Anshuman Atri** How do you see this contributing to total revenues in FY19?
- V. Venkatramani** It is very difficult to take a call on FY19, but while we are conservative as far as top line growth is concerned for the current financial year, we are very positive as far as volume growth is concerned for FY19, 20, and 21.
- Moderator** Thank you. Our next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.
- Sneha Talreja** The question is more pertaining to the volume growth guidance that you have given for FY18, so as you were referring that we have already seen pickup in the month of July and you are giving guidance of 5% to 6%, given that our base of FY17 Q2 was already so low, so just wanted to know the reason, there would definitely?
- V. Venkatramani** Not really, FY17 Q2 was a reasonably good quarter, we had a bad quarter in Q3 where demonetization had a substantial impact.
- Sneha Talreja** Sir, I mean H2 we have seen about 7% decline in your volumes and even in Q4 we have seen somewhere about 2% decline?
- V. Venkatramani** We had a steep degrowth in volumes in the first quarter. We have had about 11.5% degrowth in plywood volumes in the first quarter hence the fact that I am sticking to our 5% to 7% growth guidance, that I have not taken the call to reduce the guidance indicates that we are positive that things will improve with GST implementation, but yes definitely there are confusions and concerns as far as GST implementation is concerned which could have an impact on growth over the next two quarters.
- Sneha Talreja** There would be definitely, the top line should be more than that because you already taken a price increase, so we could easily expect a 10% growth?
- V. Venkatramani** It is just a small price increase of 2%, so that will not contribute substantially to the growth, but yes, while we continue to maintain a guidance of 5% to 7% because even if we look at a half-year breakup for plywood, so even if we want to have a growth of about 3% to 4% growth in plywood in the first half, we would require about 20% growth in Q2 so that is the reason I am saying since the Q1 has seen a substantial degrowth, so it is reasonable to expect that 5% to 7% growth over the full year at this point of time.
- Sneha Talreja** Sir, just wanted to know you have definitely guided for MDF's full export volume once the new plant comes in, what is your target of percentage of exports in the next year itself like today we are roughly doing 13% towards exports, so what could this mix be in the FY18?
- V. Venkatramani** Once the new plant starts operation, we will completely stop exports from the existing plant because it is not economical. We are exporting only at variable costing, so we will shift the exports entirely to the new plant and from the next year itself I would expect exports to be at least 30% of the total volumes.
- Sneha Talreja** That is FY19, FY18 itself there could be something about 15% to 16% because currently we are standing at about 13%?
- V. Venkatramani** We are at about 12% in the first quarter, while I think we will continue to maintain this 12% there could be small hike if things continue to be challenging on the domestic front, we could see a small increase in exports, but overall I think we will continue to stick to this level of exports.

- Sneha Talreja** Are we seeing challenges from now on itself because till now Century Ply's plant has not yet come up, even Action has not yet come up, so are we seeing challenges in the MDF market?
- V. Venkatramani** We are seeing challenges overall as far as the business environment is concerned, it is not just plywood or MDF, so they are like I said there is a lot of confusion and concerns as far as GST implementation is concerned which is leading to reduced off-take by the channel especially at the retail level, so that could have an impact on the overall volumes for the next couple of quarters.
- Moderator** Thank you very much. Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, Sir.
- V. Venkatramani** Thank you friends for taking out time to attend this call and hearing me patiently. I hope to interact with you in future calls also. Thank you very much.
- Moderator** Thank you. 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.