



Greenply Industries Limited

Q2 and H1 FY17 Results Conference Call Transcript

October 24, 2016

- Moderator** Good day, ladies and gentlemen, and welcome to the Q2 and H1 FY17 Results Conference Call of Greenply Industries Limited. As a reminder, all participant 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.
- Gavin Desa** Thank you, Margret. Good day, everyone. And thank you for joining us on the Q2 and H1 FY17 Earnings Call for Greenply Industries. We have with us today Mr. Shobhan Mittal – Joint Managing Director and CEO and Mr. V. Venkatramani – CFO.
- Before we begin, I would like to state that some of the statements made in today's discussion maybe forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available in the result presentation that has been sent to you earlier. I would now invite Mr. Shobhan Mittal to commence the proceedings of this call. Over to you, Shobhan.
- Shobhan Mittal** Thank you, Gavin. 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 the 2nd Quarter of Financial Year 2017. I will talk briefly about the performance of our businesses before passing it on to Venkat to run you through the numbers for the quarter.
- While we continue to witness a consolidation, we have delivered decent growth across both our businesses, namely plywood and MDF. We are steadily expanding the distribution network of our newly launched wallpaper business with increasing acceptance. Our plywood business has achieved better sales and improved margins owing to better capacity utilizations, cost control systems and improving manufacturing efficiencies and product quality. The quarter again witnessed higher capacity utilizations with slightly lower realizations since our Rudrapur plywood unit has come out of excise exemption from May 2016. We have been able to maintain our market share and grow our volumes.
- Our MDF business continues to grow given the increasing acceptance of the product leading to high capacity utilization, however, sustained price cuts by competition have had impact on our MDF volumes. Work on the new MDF plant in Andhra Pradesh is on schedule and we have tied up the funding of the project.

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

V. Venkatramani

Good afternoon, friends. I thank everybody for joining us to discuss the Q2 financial performance of Greenply Industries Limited. We delivered a top-line growth of 8.5% in the quarter, growth came on the back of a better performance by the plywood business which grew by 7.7% on a net sales basis. On a gross basis growth was about 12%, but low at the net percentage because our Rudrapur plywood unit came out of excise exemption with effect from May 2016. MDF revenues have grown by 9.5% year-on-year. Growth has been impacted in this quarter due to sustained price cuts by competition, as already mentioned by Mr. Shobhan Mittal.

Our average realization of plywood reduced marginally from Rs. 236 to Rs. 233 which is less than the impact of the excise duty at Uttarakhand unit. MDF realizations have decreased by 3.7% from Rs. 26,783 to Rs. 25,802 per cubic meter over the previous quarter, primarily due to exports. Domestic realizations per cubic meter were Rs. 27,038 compared to Rs. 26,783 in the corresponding quarter. Exports for the quarter were 5,341 cubic meter at an average realization of Rs. 15,957. Our gross margins have improved by 100 basis points year-on-year to 46% due to increased capacity utilizations and improving operational efficiencies.

We continue to invest in brand building, which in-turn enables us to maintain our strong market share. Our ad expenditure in the quarter was 3.5% compared to 3.9% in the corresponding quarter last year and 3.3% in the immediately preceding quarter.

EBITDA margins for the quarter at 15.5% improved by 130 basis points year-on-year. Efforts to improve the gross margins have paid off at the EBITDA level. Capacity utilizations in Q2 were higher at 116% for the plywood segment and 109% for the MDF segment compared to 102% in plywood and 91% in MDF in the year-on-year quarter. PBT growth for the quarter was higher by 31.6% at Rs. 48.17 crore and PAT growth was higher by 28.3% at Rs. 35.09 crore due to increase in tax rate from 25.3% in the corresponding quarter last year to 27.2% in the current quarter.

Working capital days have decreased by 3 days to 52 days, reflecting marginal improvement in a tough marketing environment. We will be focusing our efforts to reduce the working capital investment in debtors and expect some improvement in the succeeding quarters with the possible implementation of GST in the next financial year.

That concludes my presentation. I would now like to open the floor for the question-and-answer session. Thank you.

Moderator

Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani

Sir, on the MDF side what is the percentage of export this time?

Shobhan Mittal

We had export volumes of 5,341 cubic meters at a realization of 15,957 per cubic meter compared to 3,472 cubic meters at the rate of Rs. 17,277 in the first quarter of the current year.

Jignesh Kamani

So roughly around 10% of our volume is on the exports?

- Shobhan Mittal** Yes, probably.
- Jignesh Kamani** Where we are not making any money as of now I suppose?
- Shobhan Mittal** That is true.
- Jignesh Kamani** So, in this case our domestic realization is excess of 30% margins?
- V. Venkatramani** We do not have breakup of domestic and exports
- Jignesh Kamani** Because if you take about 28.7% you say about the total margin in MDF, if you look up the 10% where we did not earn any money, so roughly around 30% should be the domestic margin?
- Shobhan Mittal** Yes, close to that.
- Jignesh Kamani** So, considering where competitors have taken price cut and everything, how sustainable is this 30% margin?
- V. Venkatramani** It is difficult, we are trying to sustain the margins currently, but if there are further price cuts by competition in succeeding quarters we may be forced to take a call. So it would depend on action by competitors and also demand environment at that point of time.
- Jignesh Kamani** And how much price cut the competitor has taken?
- V. Venkatramani** About 4.5% from July 2016.
- Jignesh Kamani** So still we have not reduced in last three months?
- V. Venkatramani** We were already higher by about 3% and another 4.5% cut means that currently we are higher by almost 7.5% compared to the competitor.
- Jignesh Kamani** So how is the reaction from the dealers, distributors? Now gap has increased from 4% to 8%, so are we finding tough to sell or there is no much issue as of now?
- Shobhan Mittal** No, so Jignesh I will answer that. No, there is a lot of pressure on us from the dealer side as well since the product is of a commodity in nature, of course we are facing challenges however we do not want to react and get into a price war with the competition. So the way we are trying to mitigate this is by launching schemes and incentive schemes in more value added and profitable products whereas holding the prices of our standard products. So that is how we are trying to mitigate this and optimize the product mix and sales.
- Moderator** Thank you. Our next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah** Sir, a couple of things. One is, can you give me the breakup in growth for premium as well as Ecotec in plywood segment?
- Shobhan Mittal** The overall volumes for this quarter, plywood sales volumes grew by about 8.39% and if we consider just the trading volumes that grew by about 2.5%. So we had done higher growth in the premium segment.

- Nehal Shah** But I think the growth which is looking seemingly low in trading could be largely because Ecotec BWR we are manufacturing it
- Shobhan Mittal** Yes, I will get into that, we started this process around the middle of last year, so the entire Ecotec BWR has definitely shifted to the manufacturing segment. But even considering the fact that we have achieved the growth of 11% in the premium segment, I think it is possibly due to the fact that we have been selling higher volumes in the premium segment, it is not just the change from Ecotec BWR from outsourcing to own manufacturing which can account for 11%. So possibly there has been some improvement in sales in the premium segment also.
- Nehal Shah** So Ecotec would have de-grown this quarter?
- Shobhan Mittal** Yes, if we look at a 11% growth in premium, definitely there has been a small de-growth. But I think it is also a part of a conscious effort that we are trying to improve volumes in the premium segment which has a higher operating margin compared to the Ecotec segment. So, I acknowledge we are able to have optimum utilization of the capacity in the premium segment, our efforts will be on to have better product mix in the plywood segment.
- Nehal Shah** Because 11% is volume or value?
- Shobhan Mittal** Volume. There was small value realization drop of about 1.27% for Rs. 3 per square meter, but that impact is less than the impact of excise duty at the Uttarakhand unit, it came out of excise exemption from May. But there have been some improvement in the realizations. If we discount the removal of excise exemption. The impact of excise duty is about Rs. 9.5 per square meter. So compared to last year our realizations should have dropped by about Rs. 9.5 per square meter, but there has been a drop of only Rs. 3 per square meter, it is pointing to the fact that there have been improvement in realization.
- Nehal Shah** Another thing is, there is other income of Rs. 2.4 crore, so is that related to digit?
- Shobhan Mittal** Yes, it is primarily related to the excise refund at the Nagaland factory.
- Nehal Shah** And sir, can you throw some light on the wallpaper, what kind of distribution are we sitting, when can we breakeven in that segment and what kind of growth do you expect for the full year and FY18 in wallpaper?
- Shobhan Mittal** We had a very strong progress in the wallpaper segment and growth has been lower than what we were targeting in the current year. But we have stuck to our conditions on pricing and no credit policy, so whatever we are selling in the wallpaper segment is entirely on cash and carry. As long as we are able to maintain our condition both on pricing and credit policy, I think a slower growth rate is acceptable as long as this is sustainable.
- Nehal Shah** So what kind of numbers are you looking for wallpaper in 2017 and 2018?
- Shobhan Mittal** I think we should be somewhere around Rs. 12 crore - Rs. 13 crore in FY17 and we would possibly target about Rs. 20 crore - Rs. 22 crore in FY18.
- Moderator** Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani** I have two questions, firstly on the MDF, just a bit more clarification here. Sir, the price cuts which you have mentioned have been taken by competition, are this in

anticipation of any oversupply or is it a market demand issue, why have these cuts been taken? And are we likely to follow them in near-future?

- Shobhan Mittal** Well, like we mentioned we are trying to resist the pressure in taking any price cuts at our end. The way we are trying to mitigate that is by launching incentive and promotional schemes for products that are more value added and profitable to enable us to maintain our margins. However, the reason for the price cuts by the competition is a combination of factors, firstly it is in anticipation of additional capacity that is coming in with regards to Century, there is a small plant in Haryana that has recently started up. And the primary focus of all this new capacity and the existing capacity continues to be the north of India, which is why the main competitor which is Action Balaji Boards have taken this decision to go forward with a price cut. However, we have not done so and we are still able to maintain our sales and our margins at the moment. So it is hard to say whether we will take a price cut in the coming future, we are trying to resist that decision and we are trying to sustain our pricing levels at the moment. But it is hard to say how the market will react in the coming months. So we will take a business call as and when needed on this matter.
- Gunjan Prithyani** And sir, the 13% volume growth that we would have done in this segment, how has market fared, any idea would it be high...? Given that we have not taken the cut so I am assuming there would have been some volume shift towards the players who have discounted?
- V. Venkatramani** Just a clarification, that 11% volume growth was in the premium plywood segment, so volume in MDF was about 13.7%.
- Gunjan Prithyani** Yes, 14% which is there in the presentation.
- Shobhan Mittal** On account of higher capacity utilization due to the increase of export business.
- Gunjan Prithyani** Sir, how much would be the domestic growth, the 14% is the overall growth in the MDF segment, how much would be the domestic market growth in the MDF segment for you?
- Shobhan Mittal** Because last year quarter two we had no exports at all.
- Gunjan Prithyani** Yes sir, so 5,000 goes away from there.
- Shobhan Mittal** This 5,000 odd cubic metre is completely contributing to the growth. So, I think almost 8% or 9% would be on account of exports.
- Gunjan Prithyani** So, broadly if I remove that 5,000 number then there is hardly any growth in the MDF segment?
- V. Venkatramani** So, if you remove the exports there would be no growth in the domestic, but it is also conscious decision on our part that we are targeting the export market because when the new plant commences operation in Andhra Pradesh, we are targeting that we will be exporting 30% to 40% of the production at the new plant. Hence we have to build the export market to take that kind of volume in future. So it is a conscious decision on our part that any additional capacity utilization, say about 95%, 100% will be utilized for exports.
- Shobhan Mittal** There are two reasons for that, firstly we want to develop a market keeping the Andhra plant in mind and also we have a EPCG obligation for the existing plant in which we need to do some exports to fulfill that obligation. So we are utilizing this

additional capacity, earmarking this 15% to 20% capacity for the export market in order to build up market for the new plant as well as fulfill the EPCG obligation.

Gunjan Prithyani And sir, so just going back to my question, how much would have MDF domestic market broadly grown at, any sense on that?

Shobhan Mittal I would say maybe 8% to 10%.

Gunjan Prithyani And just moving to the excise thing which you mentioned, so it has gone for one of your manufacturing units for plywood, is that a risk for any other plant or even for our MDF plant there?

Shobhan Mittal We do not have excise exemption at any of the other plywood units, we get some excise refund at the Nagaland plywood unit which is available for the next nine years, and we have excise exemption at the MDF unit currently. So possibly once GST is implemented the excise exemption would go away and we would be entitled to a refund system in MDF.

Gunjan Prithyani But when does the MDF excise expire?

Shobhan Mittal So that will not possibly have any impact on the profit and loss account, but since getting a refund from the government authorities is time consuming, so possibly there will be some additional working capital investment.

Gunjan Prithyani The MDF unit which is currently qualifying for exemption on excise, that excise duty exemption expires this year or next year?

Shobhan Mittal That is available until March 2020.

Gunjan Prithyani Now, just moving to your plywood segment, there we are now at a fairly high capacity utilization, have we taken any decision of any capacity growth in that segment?

Shobhan Mittal No, we are currently not looking at any additional capacity expansion in plywood. We will probably take a call once GST gets implemented and see how the demand environment improves. Again the expansion in the plywood segment is not very time consuming, when we are looking at expansion in MDF we are possibly looking at a three year time interval, whereas we might be able to expand capacity in plywood within a period of 12 months. So we will take a call post the implementation of GST.

Gunjan Prithyani And were there any issues on the raw material front on the plywood side in this quarter, anything which may make sense for us to know because this has been a very challenging thing for plywood segment, right?

Shobhan Mittal So, almost 90% of the wood is procured from the domestic plantation timber where there are no challenges. The challenges are on the 10% wood which comes in the form of face veneers from Indonesia. Myanmar has taken a decision to ban felling of trees for a period of one year which will probably come up for review in March or April. We have sufficient wood stock to operate our factories till possibly September-October next year. Hence things will depend on what call Myanmar takes in March or April, whether they are going to extend the ban on felling of trees or whether they will allow tree felling to continue.

Gunjan Prithyani As of now we are not exploring any other market for import of face veneers other than Myanmar?

- Shobhan Mittal** No, we have already done that. We are in the process of setting up unit in Gabon in West Africa for sourcing face veneers. This unit will probably commence operations either in Q2 or Q3 of next year. And then we would not have any issues with procurement of face veneers.
- Moderator** Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda** Sir, how much more the utilization of MDF capacity can be done?
- V. Venkatramani** We are not aware of what would be the final optimum capacity. We have been able to achieve capacity utilizations of about 115% in some months, so I guess possibly peak capacity utilization would be somewhere between 115% to 118%. But we would only know when we achieve those levels. So at the moment we think that optimum capacity utilization could be around 115%.
- Shobhan Mittal** A lot of it also depends on the product mix and the demand of the products, the type of products that the market requires. Because on certain products when the density is lighter the capacity goes up, whereas heavier density products in terms of cubic meters, the capacities go down. Since we measure the capacity only in terms of cubic meters that is why this varies quite drastically, based on what kind of products the market is demanding. So that plays a big role in terms of the capacity number, the demand of the product from the market plays a big role in the cubic meter number.
- Pritesh Chheda** Is there any further debottlenecking possible in this plot?
- Shobhan Mittal** Not in the existing one, keeping in mind that we have a pretty large plant coming up in Andhra Pradesh and we would be able to optimize our geographical location of the two plants and the relating markets, so we do not want to make any further investments in the existing plants. I mean, there is no bottleneck as such, we are talking about increasing capacity at the existing plant, but we do not intend on doing that because we already have a new location coming up. So we do not see the need to do that.
- Pritesh Chheda** And today when you are selling about Rs. 476 crore worth of MDF last year, where does it get consumed? So how much is south out of this and once the south plant comes in, do you have any logistics cost saving, if you could highlight any of it?
- Shobhan Mittal** I think out of this close to 30% would be going to the southern markets. However, majority of this is actually the high exterior grade MDF. We are still not competitive with imports when it comes to the standard grade products. Standard grade products constitute almost 70% to 80% of the total volume where we are not able to compete today. The reason for that is, of course as you mentioned, the freight cost which is amounting to almost 12% to 13% of the sales price today. So, there should be at least a saving of 8% to 9% on the freight side when we produce in the south and sell in surrounding markets.
- Pritesh Chheda** And when is this plant supposed to commence operations?
- Shobhan Mittal** Quarter two, quarter three of FY19.
- Pritesh Chheda** And the machine is ordered?
- Shobhan Mittal** Machine is ordered, shipments will start first week of November.

- Moderator** Thank you. Our next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade** This is Achal from JM Financial. Sir, just wanted to understand what is the growth outlook we would have for the respective segment, if you could broadly give some sense in terms of the industry growth as well as for us?
- V. Venkatramani** I think we are looking at growth between 7% to 9% this year. And possibly with some improvements in demand and some benefits from implementation of GST we would be targeting 10% to 12% growth next year. I think growth would possibly taper off in the MDF segment next year because of capacity constraints. Probably we would have a lower growth of about 5% to 6% in MDF. But again, this would depend on how much of capacity utilizations we can achieve in the current year. If you look at March 2016, we had a capacity utilization of 99% in MDF and we are targeting about 115% capacity utilization at the optimum level. Hence we have about 16% room to grow for FY17 and FY18 put together. So, FY18 growth would depend on how much of growth we achieve in the current year, but consolidated growth of the two financial years put together should be about 15% - 16%.
- Achal Lohade** At MDF plus plywood, right?
- V. Venkatramani** AT MDF. On plywood, we had about 100% capacity utilization last year and optimum should be somewhere about 118% to 120% and then we could possibly shift some of the mid-segment product which we are manufacturing today from manufacturing to outsourcing. I think we do not have any capacity constraints immediately in the plywood segment. So if markets improve we should have sufficient capacity for FY18.
- Achal Lohade** And in terms of the industry growth, what is the sense we have for the near-term?
- V. Venkatramani** I think if we look at the entire plywood industry, both organized and unorganized, it is probably stagnant or there is a small de-growth.
- Achal Lohade** And we are looking at the similar situation for next year or two or are we seeing any green shoots?
- V. Venkatramani** At the moment we are not seeing any signs of recovery in demand.
- Achal Lohade** And if you could talk a little bit about the CAPEX part, as you said you are putting up a MDF plant, so what is the CAPEX for that, how much is already spent, how much is expected to be spent?
- V. Venkatramani** Our total capital expenditure would be somewhere between Rs. 700 crore to Rs. 720 crore. And we have spent about Rs. 156 crore till September 2016. Probably, the bulk of the CAPEX, I am estimating at about Rs. 400-odd crore of CAPEX will happen in FY18.
- Achal Lohade** And if I understand, basically if we are looking at the utilization they are beyond 100%, as you said capacity varies depending on the product mix. Does it mean that in terms of the operating leverage it is already reflected in the current margins, so when we commission a new plant margins could see a dip with the new cost in the utilization in the beginning?
- V. Venkatramani** In fact existing capacity only, I think we are close to peak margins. Because like I mentioned at the beginning of the call that whatever excess capacity utilization we will have over last year will probably be allocated to the export markets where we

are not having any margins. So, I do not think we will see any improvements in margins. And your question on reduction in margins, if there are further price cuts by competition we might be forced to take a call on prices. So I would not like to comment on that speculation at this point of time. But at the moment whatever price cuts have already been initiated by competition, we are trying to stick to our current prices and credit policies.

Achal Lohade Just last question, if you could talk a little bit about any specific region, state which is seeing good growth or not so good growth, if you could give a color?

V. Venkatramani I think it would possibly vary from company to company and industry to industry, but if we look at Greenply I think probably southern part is doing better compared to the northern and eastern parts.

Achal Lohade And any of the states where we have seen a decent improvement or something?

Shobhan Mittal Nothing significant at the moment.

Achal Lohade And in terms of the distribution, what is the current level or number of dealer, distributors we have and what is the potential in terms of reach?

Shobhan Mittal If we look at our existing distribution network, we have direct dealers of about 1200 in plywood and about 600 in MDF. And below them would be a retail chain of about close to 10,000. So, I would not be able to put an estimate to what could be target for us, we are trying to grow the distribution network by about 200-odd dealers ever year, so that is our internal target. But if you look at products we are still largely urban supplier, our products do not have much of markets in the rural segment, especially in the plywood where it is dominated by unorganized segment. Almost 98% of our sales happen in the urban areas.

Achal Lohade And in terms of the pricing, are we are the premium end in terms of the organized players, are we at par, are we at a slight discount?

Shobhan Mittal I think Greenply and Century would probably be at least at 10% to 20% premium over other organized players. But if you compare Greenply and Century, I think on a national level we would be probably almost similar. We could have a slight advantage in southern and northern parts whereas Century probably has a stronger distribution network in western and eastern parts.

Moderator Thank you. Our next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit Hi sir, this is Rahul from IP Life. Sir, I have some specific questions for MDF. So, are we currently importing as well after this anti-dumping duty?

Shobhan Mittal No, we are not trading in MDF. Whatever MDF we are selling is all manufactured by Greenply.

Vinay Rohit No, I am talking about the industry, sir? Is there import currently after ADD, after anti-dumping duty?

Shobhan Mittal Yes, there is still substantial amount of imports coming in because the anti-dumping duty is not really helping much because certain companies have not fallen under the purview of the anti-dumping duty, certain countries are out of the policy as well. So, basically the demand has shifted from countries like have been affected to countries that have not been affected. So, the imports have just

basically been shifted from one country to the other or from one company to the other company. So, it has not really resulted in a very large reduction of imports in to the country.

- Vinay Rohit** So what would be the current price difference?
- Shobhan Mittal** The current price difference after implication of all import duties etc, I would say would be close to 15%.
- Vinay Rohit** They are still 15% cheaper?
- Shobhan Mittal** Yes.
- Vinay Rohit** So, just wanted to understand this, have we made known this to the government on how the anti-dumping duty is not doing any good?
- Shobhan Mittal** No, I mean the job of anti-dumping duty is unfair competition, but they have not been able to prove that they are not, they are actually competitive at that price and making a profit then it really boils down to the free trade agreements and WTO also intervenes and says that they should be allowed to do, it is a free market basically. I think the policy is to protect unfair competition against the domestic players, but if they are fairly selling at a profitable price which they are able to prove, then the government will not implement anti-dumping duty.
- Vinay Rohit** And suppose our MDF division, if I see the presentation, I think there is a small amount of inventory in MDF that we are sitting on today as of end of the quarter. So 49,000 if I am correct was produced and 47,800 is something what was sold. So, is this a conscious decision or there were some sales which have now gone to the next quarter?
- Shobhan Mittal** No, so that is basically the change in the inventory level over this quarter. But, I mean of course there would have been some amount of inventory at the opening stock as well. So this quantity would then add to the closing stock and then that would in-turn become the opening stock for the next quarter.
- Vinay Rohit** So there is no sale which has got transferred to the next quarter as such?
- Shobhan Mittal** I do not fully follow, what you mean the sales...
- Vinay Rohit** Sir, what I was understanding is there is some transit or something which is still not booked as a sale.
- Shobhan Mittal** No, we think MDF is built on ex-factory basis, so I mean all invoices that happen at the end of the month are taken in the existing quarter itself.
- V. Venkatramani** To answer your question, in order to have the optimum capacity utilization at the plant we produce some standard products that have a regular order flow. So, because of higher capacity utilizations in this quarter, like we mentioned we had about 109% capacity utilization in this quarter, there will be some additional inventory this quarter which will probably reduce in the next quarter.
- Vinay Rohit** Sir last question on this GST impact, so plywood has a lot of unorganized players, 70% to 80% is what we understand. So, given that this GST is not confirmed, so how are the unorganized guys reacting on the ground, how are they changing their behavior and everything?

- Shobhan Mittal** I think reaction is not something which is visible as of now, so like we have not got any feedback on how the unorganized producers are reacting in the markets. So possibly we would get some feedback in the fourth quarter. Once the rates and everything are available in the public domain, then possibly we would get some feedback from the markets.
- Vinay Rohit** So there was a very visible thing of some unorganized guys maybe selling their capacities for cheap valuations, so have you seen these kind of new things coming up?
- Shobhan Mittal** No, we have not heard anything like that.
- Moderator** Thank you. Our next question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.
- Basudev Banerjee** I just missed out in initial part you said that almost 10% of your MDF is exported and it is a conscious decision that when your new plant capacity will come up so that you can keep optimum utilization by targeting the existing export customers. And may I add that your domestic MDF was literally flat year-on-year and the incremental is exports and industry grew by 10%. So, other than this factor that with your limited capacity and your consciously setting up your export base, is there any other reason to look at that domestic MDF competitive intensity has been increasing? And in case you had ample capacity you would have still lost market share, is that the way to look at anyhow?
- Shobhan Mittal** No, I think what we are trying to say is that although the market size in India is growing, however due to our capacity restriction at the existing plant and due to our inclination towards building a export market as well as our obligation to do some exports because of our EPCG obligation, it would be fair to say that we are not enjoying the benefit of that growth in the domestic market as of today because we are not able to allocate additional capacity for that growth to the domestic market. So, that is how I would like to put it that we are remaining flattish on the domestic side and utilizing our additional capacity for the export market which is an investment towards the new plant.
- Basudev Banerjee** And one more thing sir, when your new plant in second half of FY19 will be up and ready and by FY20 your capacity will treble, and as you have been saying that you will be targeting around 40% of the new plants capacity for exports. But as you are saying that you are exporting presently with literally a nil margin, as an initial investment phase to setup base in those markets, what will be the scenario post FY20 when your new plant is up and running, even then you will be selling at those miniscule margins or there will be change in pricing strategy?
- Shobhan Mittal** I mean, in all fairness today basically a very large portion of the realization that we are getting in the export market, it is basically driven by the international pricing and a large portion of the realization is going as cost of freight which is close to 35% of the sales realization today. So 35% of the total sales realization is incurred as cost to transport from Uttaranchal to the port and on to the foreign country by sea. So, this would substantially be reduced in the new plant because we will be right next to the port, Krishnapatnam port is only 70 kilometers away and Chennai is 150 kilometers away. So the inland freight component would be drastically reduced and hence there would be a contribution on the operating profit from the export sales in the case of the new plant.
- Basudev Banerjee** And out of this 35% overall freight cost, you mentioned Uttaranchal to the south Indian port would be somewhere around 7% - 8%?

- Shobhan Mittal** No, actually the inland component is much higher than the sea freight.
- Basudev Banerjee** Can you quantify that, sir?
- V. Venkatramani** Uttarakhand to Mumbai port would almost be 25% of the selling price.
- Shobhan Mittal** So I mean in all sense I think it is safe to say of let's say \$70 per cubic meter that we incur from our plant to the destination, depending on which location it is going to, close to \$40 - \$45 is the inland component.
- Basudev Banerjee** So broadly when the new plant is up and running and you are exporting, your margins will be broadly equivalent to the existing domestic margins?
- Shobhan Mittal** No, I would not say so because as you can see realizations will continue to be lower, I mean if you look at the realizations we are at Rs. 17,000 or Rs. 18,000 on the export side whereas we are close to Rs. 25,000 - Rs. 26,000 on the domestic side. So realizations in the export market will always be lower. So, because currently the export market pricing are at historically much lower levels, for the past two, two and a half year we have not moved beyond \$200 - \$210 per cubic meter for 17 millimeter product which historically has been even at \$235 - \$240 levels. So, profitability of the export business will depend on how the international market reacts.
- Basudev Banerjee** And what derives that pricing mechanism in global markets?
- Shobhan Mittal** So, it is world demand and supply.
- Basudev Banerjee** It is pure demand and supply and sentiments as such because unlike other materials which are crude dependent, commodity is the main driver, nothing else is there.
- Shobhan Mittal** It affects the glue cost definitely but it is not such a large component of the total cost. I think it is a matter of demand, supply and more importantly shipment prices. Also, primarily the Southeast Asian countries, the biggest market continues to be the Middle East for these countries. So demand in the Middle East is one of the critical factors for the export pricing required.
- Moderator** Thank you. Our next question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.
- Anand Bhavnani** I actually wanted to have a sense about the capital investment involved for the Gabon plant, I mean can you throw some more light on it?
- V. Venkatramani** We are looking at an investment of about Rs. 100 crore to Rs. 125 crore at the Gabon plant for the face veneer unit which we are looking to setup and start production during Q2 or Q3 of the next financial year.
- Anand Bhavnani** And this will cater to India demand or would it also be used for independent trading purposes?
- V. Venkatramani** It will also be used for sales to third parties in India, so probably I think our requirement will be only about 35% of the total production and the balance would be sold in the market.
- Anand Bhavnani** What is the possible revenue potential for this particular product?

- V. Venkatramani** I think at optimum capacity utilization top-line would be about EUR18 million to EUR20 million.
- Anand Bhavnani** And what kind of EBITDA margins can you get here?
- V. Venkatramani** EBITDA margins should be about 12%.
- Anand Bhavnani** And sir, can you share the percentage of anti-dumping duty on MDF which was imposed recently and when it is up for renewal?
- V. Venkatramani** Anti-dumping duty on MDF varies from country-to-country and manufacturer-to-manufacturer. It probably starts at around \$14 - \$15 per cubic meter and a maximum is up to \$64 per cubic meter.
- Anand Bhavnani** And sir, in Q1 concall you mentioned that the improved working capital days were 9 days last financial year, so this financial year do you anticipate any improvement in the working capital days?
- V. Venkatramani** We have had an improvement of three days in the current year. However improvements have happened primarily on the inventory side where we have reduced imports post the Myanmar ban, we are yet to see any improvement on the debtor side. I think that we would expect that only when we see some improvement in the demand environment.
- Anand Bhavnani** Sir, in terms of our production, you said some percentage of plywood production is currently being outsourced, so can you share the percentage that we are getting manufactured from other vendors?
- V. Venkatramani** Out of our total sales about 70% comes from own manufacturing and 30% is outsourced, that is on the volume side. On the value side if we look at it, I think manufacturing would be about 78% of the total plywood business and outsourcing would be about 22% in value terms.
- Anand Bhavnani** So in terms of value we have 22% headroom for expansion, rather not 22, 22+15, 37% headroom for expansion over next two years, would that be the right way to look at it?
- V. Venkatramani** I think it would also be dependent on the mix of thicknesses that we produce. So, if we are producing more of the higher thicknesses you can get a higher capacity utilization, if you are producing more of the lower thicknesses your capacity utilization reduces. So it will also depend upon the mix of orders that we get for different thicknesses, but to a broad extent I think possibly we could have somewhere about 35% to 40% growth without any capacity expansion.
- Anand Bhavnani** And sir last question, the anti-dumping duty is for a period of five years, am I correct in assuming that?
- Shobhan Mittal** True.
- Anand Bhavnani** And any petition or any sort of further request with the government we are taking up to get higher duty from the present levels or on additional countries for the next Budget?
- Shobhan Mittal** So we have gone into appeal with regards to certain countries or companies which have had very low anti-dumping or negligible or no anti-dumping duty implemented. So the matter for that is already ongoing at various authority levels. And the policy

that has been implemented automatically comes for review at the end of the fifth year and it is temporarily extended anyways while the review happens. So it is a routine process where the authorities would approach for submission of data and cost numbers, etc at that time. So it is a routine process where the industry and the authorities come hand in hand and sort of take it up.

Anand Bhavnani Sir and in the initial part of the con-call you indicated that because capacity has come up in Haryana for MDF and Century is to start their production soon there is a price war in the northern region. Sir, any timelines when Century could start production and can it further extend to southern regions, the price wars?

Shobhan Mittal No, so I mean eventually when the capacities are increasing everyone wants to sell in all the markets, no one wants to miss out on any market. So in the long run, there would be price competition, what I am trying to say is the intensity of the price war in the north of India would be the highest because today everyone's focused market is north of India. And it is most lucrative to sell in the north of India due to the location and freight benefits. So, north of India would have faced the biggest challenge in terms of price competition. For the timeline of Century, I am not too sure but I think what I have heard in the public forum that they will be looking at somewhere around middle of next financial year to start production.

V. Venkatramani Q1 or Q2 of next financial year.

Moderator Thank you. Our next question is from the line of Vijay Karpe, he is an individual investor. Please go ahead.

Vijay Karpe I have many questions, I will take them one by one. So the first one is, the current machinery which we have ordered for the new plant, are they better in terms of efficiency and specification than Pantnagar plant?

Shobhan Mittal Vijay, see of course they are more modern, there is new technology involved but I would not say that you will have a higher capacity from the same machine. It is actually more, let's say, margin of error would be low in the new machinery because of newer technology. There are more safety measures to protect the machinery. But outright if you tell me that will we have a higher capacity from the same type of machinery, no that is not the case. But what I can say is that the machinery we have brought is sort of in line with the latest technology that is available and is the most updated technology currently available in the market.

Vijay Karpe On your Facebook page, it is not the Floormax one, it is the other one. One clipping has been shown over there stating that we are going to expedite the Andhra Pradesh plant. So can we get the plant up and running before September of 2018?

Shobhan Mittal No, I would like to say yes but I do not think we will be in a position to do that, because it is a pretty large plant and you can see the machinery shipments are only going to start next month and it is also because of the large capacity of the plant and heavy industry nature, we need that timeline for the plant to start up.

Vijay Karpe In the 2016 annual report, the latest one which we have published, it has been mentioned that you would be going very aggressively on Floormax, and which we are doing right now on the Facebook page. But can I expect any ads on Floormax or any other Greenply products on TV?

Shobhan Mittal So, the Floormax volumes will not justify us to do any above the line sort of promotion for the time being. So, we are not going to entail that, we are going to work on promotion through social media. We may come out with some adverts in

magazines and paid magazines, etc, but if you are talking about advertising on television, that is definitely not on the cards for Floormax at the moment.

Vijay Kapte I just wanted to give one suggestion Shobhan, can we please go for some above the line ads because I think it will help us in the future.

Shobhan Mittal I appreciate your input, Vijay. Budget permitting that is definitely something that we would like to do, but we are also sort of wanting to keep our margins intact and allocate resources where we see most benefit will come. But we appreciate your input, I also agree with you but we just have to be a little careful that we do not extend beyond budgets.

Vijay Kapte Yes, your point is taken sir. But it will help us improve our brand and one of our closest competitors is also going very aggressively on above the line ads on TV.

Shobhan Mittal I appreciate that, yes I understand. And we will definitely take that into consideration. Thank you very much.

Vijay Karpe My next question is, what was your rationale for taking a foreign loan for the new plant? I think some Rs. 400 crore has been arranged as a foreign currency loan, right. So is it floating or is it fixed and what is the rate of interest?

Shobhan Mittal We have take two loans, actually three forms of loan for the new plant. One is a standard rupee term loan that we have taken from HDFC. The second loan which is basically the main supply of plant and machinery is being financed by a German bank which is LBBW, this is a ECA backed loan so this is backed by the German Government to promote capital goods export, in which case the interest cost goes down substantially for the importer, because the German Government is actually guaranteeing the loan for Greenply to the seller and to the bank. So, since they have an insurance from the government itself, the interest cost is much lower.

Vijay Karpe Sir can you disclose it? And what is it, fixed or floating?

V. Venkatramani The loan from the German bank will be fixed, it will be fixed except to the extent that it will change with Euribor.

Shobhan Mittal So, it is a small, basically Euribor is basically a floating rate, Euribor is European Inter-borrowing and there is a premium that the bank takes on top of the spread.

Vijay Karpe It is fixed right, the interest rate is fixed right?

Shobhan Mittal No, there are two components to the interest rates like I said. The first is the Euribor which is floating and then there is a bank spread on top of that which is fixed. So let's say if the current Euribor is 0% and the bank is charging 1%, so today I am going to pay 1%. But if the Euribor moves to 1% then it will be 1% + 1% spread of the bank. So the bank's spread is fixed but the Euribor is floating based on the market.

Vijay Karpe Okay. So we are exposed to the interest rate movement, right?

Shobhan Mittal Yes, obviously. Euribor is floating and the banks rate is fixed.

Vijay Karpe And what about the currency fluctuations that will happen, how we are protecting ourselves from the same?

- Shobhan Mittal** No, I mean this is a decision that we will take because we cannot take any protection of hedging at the moment till complete disbursements are done. So, there are three components which can be hedged, one is the Euribor, one is the Dollar to Euro and then there is INR to Dollar. So, we will take a decision when we are in a position to hedge as to which component to be covered and which to be left open.
- Vijay Karpe** Now suppose the interest rates in Europe are really very low, so if suppose two or three years down the line if they really move up from these low levels will Greenply take a very big hit over there?
- V. Venkatramani** No, see I mean we also need to be careful that the difference between taking a cover today as opposed to the existing un-hedged rate is so high that for us to actually go into a loss. The interest rate would have to move up substantially which is not expected or which is not very likely. But it also very long-term scenario, we are talking about a loan that is ten years today.
- Vijay Karpe** But we are not underestimating this risk, right?
- Shobhan Mittal** No, we would not be underestimating but we have already had this experience with our existing loans where we have kept a loan open. But I am saying nothing is decided at the moment Vijay, once we are in a position to take a call we will take a call based on the market conditions, based on what our advisors tell us, what the banks tell us, what the market conditions would be. So it is too premature to tell you anything at the moment whether we are deciding on anything or not.
- Vijay Karpe** Coming to our wallpaper business, how we are planning to take on the might of Asian Paints which has its own wallpaper called Nilaya?
- V. Venkatramani** Like we mentioned Vijay, we are keeping a watch on both the pricing and our credit policies and what we are looking at is sustainable growth. We have not been able to achieve our growth targets in the first half of the year, we are okay with that as long as whatever growth we are achieving is sustainable and we are able to sell our volumes at the desired prices or on a cash to carry basis.
- Vijay Karpe** Now, the wallpaper which we are selling are not made by us?
- V. Venkatramani** The entire wallpaper business is on a trading model.
- Vijay Karpe** And Asian Paints makes it on its own?
- V. Venkatramani** I think they are currently on an outsourcing model only. We do not have any wallpaper manufacturing company in India.
- Vijay Karpe** And in the annual report it has been mentioned that you are going in for plantations close to our plants, so when can we see those benefits coming into Greenply?
- V. Venkatramani** So there are two different levels of plantation activities that we are carrying out. One is, we have nurseries at all the four plants where we are producing these clonal plants and distribute them to farmers just to motivate them to do more plantations. Now if farmers have to buy these clonal plants from the market, they are possibly spending about Rs. 10 to Rs. 12 whereas we supply to them at cost which translates into Rs. 5 to Rs. 6 per plant. So we are doing this activity at all the four plants to promote plantation. We distribute the saplings to farmers within a radius of 100 to 150 kilometers in the expectation that if there are more plantations in the neighboring areas then we are likely to receive a higher percentage of wood

in the future from these plantations. Coming to the second activity that we are doing at the Nagaland plant, we are doing plantations on third party land. So, here the agreement with them is that when these trees are ready for harvesting they will be supplied to Greenply, actually there is no other option because there is no other wood based unit in Nagaland. So, whatever plantations are happening in Nagaland on third party land will probably come to us, but it will happen probably after a gap of seven to eight years because we just started this activity about 18 - 20 months back. So, possibly the first harvesting will happen in another 6.5 - 7 years from today.

- Vijay Karpe** That is a lot of time.
- V. Venkatramani** Yes, true.
- Vijay Karpe** And one more last question which I have. I have visited a lot of plywood sellers and I have asked a lot of carpenters as well, this question, which plywood company comes to your mind when I say plywood? So they did not take our name, they took some other competitors' name. So in the analyst meet which we have made last time sir, you had mentioned that the plywood quality which we manufacture is the best in the industry.
- V. Venkatramani** True.
- Vijay Karpe** Even then why do we price our plywood at a discount as compared to our closest competitor, we should be selling them at a higher price?
- V. Venkatramani** Okay, I will tell you. Like I mentioned somewhere during the call that we have a stronger market presence in the southern and northern parts in the plywood business compared to competition and the competition has a stronger market presence in western and eastern parts compared to Greenply. So there could be some variations in pricing like probably we would have a price premium in the southern and northern parts whereas competition could have a pricing premium in western and eastern parts. But if you look at it, I compared average realizations and our average realizations were higher. Now this could be a function of that we are selling more premium and competition is selling less premium, because I do not have the entire breakup of sales of the competitors. But on an average realization basis we were higher than competition.
- Vijay Karpe** I just wanted you to consider the thing which I told you. We can go for a few TV ads, it would really help us. Please do consider my suggestion.
- V. Venkatramani** I think you mentioned that for the MDF business?
- Vijay Karpe** Not for the MDF, for the Greenply brand itself as a whole, in general.
- V. Venkatramani** So that is something we are doing every year for the plywood business and I think we would continue to do that. But I have been interacting with various investors and analysts in the market and I have also given feedback to Mr. Mittal that we could possibly look at some branding on the MDF side in future because possibly that would be the differentiating factor between Greenply and competition in the longer run. So, we would be looking at that also in the longer run, but once probably we are able to build up volumes after the new plant starts operations.
- Vijay Karpe** Above the line TV ad?
- V. Venkatramani** Yes, that is right.



Moderator Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the conference over to the management for closing comments.

Shobhan Mittal Thank you. Thank you, everyone, for attending this call. If you do have any more questions please feel free to send it to us, we will be very happy to answer them. And we look forward to speaking to you at our next call. Thank you very much and good night.

Moderator Thank you. On behalf of Greenply Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.