



## Greenply Industries Limited

### Q4 & FY18 Earnings Conference Call Transcript

#### May 30, 2018

---

**Moderator** Ladies and gentlemen, good day and welcome to Greenply Industries' Q4 & 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

**Rishab Barar** Good day everyone and thank you for joining us on the Greenply Industries' Q4 & FY18 Earnings call. We have with us today Joint Managing Director and CEO – Mr. Shobhan Mittal and Mr. V. Venkatramani – the CFO of the company.

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 certain risks and uncertainties. A detailed statement in this regard is available in the results presentation that was sent to you earlier. I would now like to invite Shobhan Mittal to begin the proceedings of this call. Thank you and over to you, sir.

**Shobhan Mittal** Thank you, Rishab. A very warm welcome to everyone present and thank you very much for joining us today to discuss Greenply's operating and financial performance for Q4 & FY2018.

I will talk briefly about the performance of our businesses before passing it onto Venkat to run you through the numbers for the quarter.

Our Plywood business for the quarter stood at Rs. 305.78 crore, compared to Rs. 306.4 crore. We are hoping that implementation of the E-Way Bill system will lead to a significant shift from unorganized to branded segment. Gross margins were lower due to lower realizations in plywood and losses in wallpaper and other categories.

We have entered the lower segment of plywood through the outsourcing route with the introduction of two new brands Bharosa and Jansathi and this should provide us a new category for growth in plywood.

Our new Decorative Veneers Unit in Gujarat commenced commercial production in April 2018. We are undertaking a significant expansion of face veneer unit capacity



in Gabon, 36,000 cubic meters to 96,000 cubic meters. The expanded capacity is expected to be available in April 2019. We are also planning to increase our outsourcing proportion from up to 30% from 22% presently over the next 3 years.

Our MDF business sales have fallen by 23.7% in this quarter. This was primarily due to lower sales volume because of a steep reduction in prices by competition. However, our MDF EBITDA has expanded in value terms from Rs. 129.43 crore in FY2017 to Rs. 135.85 crore in FY2018. MDF EBITDA margin was 28.8% in FY18 versus 27.15% in FY2017. Improvement in EBITDA was achieved in spite of reduction in savings from excise exemption post-GST which has had an impact of Rs. 13 crore, equivalent to 2.75% and foreign currency losses of Rs. 14.64 crore, equivalent to 3.1%.

Our new MDF plant in Andhra Pradesh with a capacity of 360,000 cubic meters is expected to commence commercial production in June 2018.

I would now like to handover the call to Mr. Venkatramani for the financial numbers. Thank you.

**V. Venkatramani**

Good Afternoon friends. I thank everybody for joining us to discuss the Q4 FY18 financial performance of Greenply Industries.

In Q4FY18 our topline was down by 6% compared to the year-on-year quarter. This was largely on account of a steep fall in MDF revenues to the extent of 23.7%. Plywood contributed to 72.8% of total revenues and MDF contributed 25% of the total revenues. In Q4 FY18 our gross margins fell by 310 basis points year-on-year to 44.8% due to lower realizations in plywood and losses in wallpaper and other categories. Average realizations in Q4 FY18 in plywood were lower by Rs. 14 per square meter from Rs. 231 to Rs. 217.

In Q4 FY18 MDF realizations were marginally up by about 0.8% to Rs 25,954 from Rs 25,737 per cubic meter in the corresponding year quarter primarily due to higher realizations in the domestic markets. EBITDA margins for the quarter were down by 290 basis points at 13.9% due to reasons mentioned before. Capacity utilizations in the quarter were 106 for plywood segment and 100 for the MDF segment. Profit After Tax was down by 22.1% at Rs. 32.6 crore compared to Rs. 41.86 crore in Q4 FY17.

Our CAPEX incurred for FY18 amounted to Rs. 362 crore and we expect to spend Rs. 150 crore in FY19 to complete the expansion project. Our working capital turnover days have increased to 62 days owing to an increase in inventories. Net debt to equity ratio stands at 0.71 as on March 31st due to incremental debt taken for funding our Capex requirements especially Rs. 384.62 crores on account of expansion in MDF.

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

**Moderator**

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Achal Lohade from JM Financials. Please go ahead.



**Achal Lohade** Just wanted some clarification on the numbers. If I look at the reported revenue in your press results, it is Rs. 437 crore. But if I look at the PPT, the addition comes to about Rs. 420 crore. Where is that Rs. 17 crore difference because if I notice your gross margin tends to different than in your earnings release as compared to power point presentation?

**V. Venkatramani** Could you repeat the question please?

**Achal Lohade** If I look at the segmental numbers in your results, especially for the MDF business compared to what is reported in the PPT?

**V. Venkatramani** Okay, that includes other operational income, because we are saying segment revenue not net sales. So segment revenue also includes other operational income primarily a refund of GST which amounted to about Rs. 15 crore in MDF and about Rs. 2 crore in the plywood segment.

**Achal Lohade** Okay, that is part of the core revenues you are seeing in the segmental numbers, but in your EBITDA margins what you have mentioned, are they part of the EBITDA as well?

**V. Venkatramani** Yes, part of the EBITDA.

**Achal Lohade** Exactly, because if I look at the EBITDA adjusted for the Forex loss, I see an EBITDA margin of 38% for 4th quarter. So I was just curious to understand, on one hand we say that the realization dropped but on the other hand our margin seems to have improved quite dramatically?

**V. Venkatramani** There were two reasons for it. Earlier we were having a legal case against us in respect of excise exemption in MDF, hence we did not account for the GST Refund in the 2nd and 3rd quarters. We have won that case in February, so GST refund for Quarter 2 and Quarter 3, amounting to Rs 12.43 crores, were also accounted for in Q4. This is the reason for the steep increase in MDF EBITDA margins. And it was also impacted by about currency loss of Rs. 7.33 crore in Q4. If we adjust for these factors, then our MDF Q4 EBITDA would be Rs. 26.81 crore.

**Achal Lohade** And the revenue would be?

**V. Venkatramani** The revenue would be Rs. 105 crore.

**Achal Lohade** Number two, in terms of the ply business, we see that the volumes have grown 5% but our margins have come off. You have indicated in the PPT that it is driven by low end products. If you could clarify a bit as to (a) what is the mix currently in terms of the premium, mid and low end? And how the growth has spanned out in 4Q as well as FY18?

**V. Venkatramani** If you look at our volumes in plywood for Q4, so we had about 4.5% growth in the premium segment and about 7.5% in the mid segment. Due to lower demand in the quarter we had to pass on some additional incentives to the dealers in the form of schemes or special discounts which resulted in a lower realization.

And there was also another impact. We were working on a new decorative veneer unit in Gujarat, so while setting up the unit we had to dismantle some of the labor

quarters, so the hit on that account amounted to Rs. 2.75 crores which again impacted this quarter's margins.

**Achal Lohade** What is the outlook in terms of the ply business? What kind of revenue growth one can look at and also for the MDF business?

**V. Venkatramani** We are targeting 12% to 15% growth in plywood for FY19 and 100 basis points improvement in the EBITDA margin. Compared to the 10% margin that we did this year, we would be targeting a 11% EBITDA margin next year primarily because we will be shifting entirely to the Gabon face veneers which will result in some cost reduction.

On the MDF side, we do not expect any further improvement in capacity utilization at the Uttarakhand unit. We are targeting to start commercial production at the new Andhra unit in June and targeting annual capacity utilization of about 45% for FY19. On the MDF margin front, we would be targeting about 24% to 25% EBITDA margin for the existing plant and about 14% to 15% for the new plant.

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

**Ashish Poddar** My question is on the MDF side. So as we are seeing huge capacities setting up by domestic players and we are hearing the price war happening on the players, can give some sense that even if this 24% to 25% kind of EBITDA margin which is very close to your FY18, is it sustainable on a 2 or 3 years perspective?

**V. Venkatramani** If we look at our FY18 margin, FY18 margin was 28.8% in MDF. And now I am giving a guidance of about 24% to 25%. So we are estimating that there could be a 4% fall in EBITDA margins at the existing plant in Uttarakhand. As regards new plant, we will be operating at a lower capacity utilization of about 45% and there would be a mix of domestic and exports. We are targeting about a 70% to 30% ratio for domestic and exports. And since exports realizations are about 35% to 40% lower compared to domestic realization, hence the reason for much lower margin at the new MDF plant.

**Ashish Poddar** Okay, so this 24%, 25% kind of margin, are you taking into account all these factors?

**V. Venkatramani** that is correct. I am giving guidance for the two plants separately. For the older plant I am giving a guidance of about 24% to 25% and for the new plant I am giving a guidance of 14%.

**Ashish Poddar** On the plywood side, so far we were focusing more on the mid and premium segment and now we are talking about entering into low segment. That low segment is still a very big market captured by the unorganized players. What is your strategy getting into that segment? If that was the case, then we could have entered that segment earlier also. So what has changed in last one year which has forced you to look at that segment?

**V. Venkatramani** If you look at our topline in plywood for the past couple of years, we have been having very low single digit growth and we feel that the growth in the premium segment will probably be continued to be impacted for the next 2 years till we see a significant improvement in real estate demand. So that is the reason why we are entering the lower segment of plywood which is a very big market. Again, we are

not entering the completely cheap plywood segment; we are entering the lower segment of the mid segment.

- Ashish Poddar** But that anyway will be impacted by your MDF so there is a huge cannibalization?
- V. Venkatramani** that segment is not impacted by MDF. MDF is impacting the cheap plywood segment. We are not entering the lowest segment of plywood, we are entering the unorganized mid segment plywood. So till last year we were present in the premium segment and the organized segment of the mid segment, now we are entering the unorganized segment of the mid segment.
- Ashish Poddar** Okay, so will those two brands have a different channel, or you will use the same channel the existing channel?
- V. Venkatramani** Yes, we will have a different channel.
- Ashish Poddar** So can we expect your Ad spend increasing because of promotion of these two brands?
- V. Venkatramani** No, we will not be doing any Ad spends on these two brands. We will just be developing the dealer network and that will take care of the sales. So there will not be any increase in the Ad spends.
- Moderator** Thank you. The next question is from the line of Kaustubh Bubna from Rare Enterprisers. Please go ahead.
- Kaustubh Bubna** Could you please share the realization, broad range realization per square meter for your mid segment plywood versus premium segment plywood?
- V. Venkatramani** Realizations for the mid segment plywood were Rs. 162 in the current quarter compared to Rs. 178 in the year-on-year quarter. And realizations in the premium segment were Rs. 243 compared to Rs. 255.
- Kaustubh Bubna** Moving onto MDF, Shobhan I just wanted to understand, currently we have seen lot of capacity come in and your competitors cut down prices to get more presence in the market, so what is our strategy over here? How much confidence do we have in our brand value transformation to maintain prices? Is the strategy to maintain our realizations not get succumbed in this price war? And how do we see the price range stabilizing moving forward?
- Shobhan Mittal** We have already been involved, if I assuming what is in the price war for the past few months because we have been countering the price reductions by way of our own strategies of launching different schemes etcetera. However, going forward the kind of competitive advantage that Greenply stands to have with regards to having two plants in the two locations and giving us the freight benefits, I do not foresee that there would be any major kind of a pressure that we will not be able to sustain. We are in a fairly comfortable position.
- Even the margins that we have attained today have been post countering price reductions by way of our internal price reductions, by way of schemes etcetera. So, I do not foresee a major challenge in terms of competition that we will not be able to sustain and the numbers that Venkat has said earlier, in terms of EBITDA



margins had factored those price reductions, etc.that we are planning to pass onto the market.

There will also be cost reduction on our part especially in the north plant because the quantity of the material almost 40% of which will be sold to the south, would in turn ship to the North of India which would result in a higher ex-factory realization. So even if we pass on those benefits, we are able to gain a better ex-factory realizations on the North plant. So combining all these factors, I think we are fairly comfortable of addressing this competition issue.

**Kaustubh Bubna** Would your realization improve this quarter means is that the right thing to infer from that is that you all did not reduce prices?

**V. Venkatramani** We did not reduce any prices in this quarter.

**Kaustubh Bubna** And hence you saw 20% volume de-growth, because of the pricing pressure, because of two new plants have started. From what I hear, Action has drastically reduced prices?

**Shobhan Mittal** That is right.

**Kaustubh Bubna** So will this continue into next quarter too? Will we see volume pressure in the next quarter Q1 FY19 for the same reason in MDF?

**Shobhan Mittal** I think for the next quarter or two we will continue to face pressure on the volumes, but going forward we may act by way of passing on some price reductions as well and which would allow us to go back to our normal volumes. It is a question of letting the market stabilize and we are also internally working on various cost reduction elements which we may be able to achieve especially on the glue side. So factoring all those in we may be able to pass on some benefit to the market yet be able to maintain our margins.

**Kaustubh Bubna** Could you be just share your plywood business debt, total debt and your Uttarakhand plant debt? Your total plywood business debt and your MDF Uttarakhand plant debt?

**V. Venkatramani** The plywood business which will continue in Greenply will have debts of around Rs. 200 crores.

**Kaustubh Bubna** Okay, and the MDF Uttarakhand unit debt?

**V. Venkatramani** that is marginal, about Rs. 20 crore.

**Kaustubh Bubna** And what the debt coming into the new plant is about?

**V. Venkatramani** Debt at this point of time for the new plant is Rs. 384 crore and by the time we complete the project, it is expected to be around Rs. 470 crore.

**Moderator** Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

**Sneha Talreja** If I am not wrong, you were saying that because of the pricing reduction that has been taken by the competitors we were not able to grow our volumes in the MDF segment?

**V. Venkatramani** That is correct.

**Sneha Talreja** what would be the volume decline in the domestic market and what was it in the exports market? If you could specify the mix which is right now?

**V. Venkatramani** Okay, so if you look at our volumes in Q4, for the domestic market we did 34,779 cubic meters compared to 48,709 cubic meters in the corresponding quarter. In exports we had a marginal growth from 4,770 cubic meters to 5,689 cubic meters.

**Sneha Talreja** And right now what would be the pricing difference between us and the competition, since they had taken a steep price decline, we have not taken any kind of price decline?

**Shobhan Mittal** Yes, so the two main competitors that we are competing today is Action and Century. Century is about 3% to 4% lower than us and Action is between 7% to 8% lower than us post the price reductions.

**Sneha Talreja** What is the strategy going forward? As you were saying that you would be monitoring the market at least for the next 2 quarters and then you would be seeing that whether you want to focus on the volumes or whether you want to take the price decline?

**Shobhan Mittal** I think what we are also waiting for is for the commercial production of the main line to start. When we are in that situation we will be able to optimize our allocation for both the plants and optimize the freight cost. So I think we would like to wait out another quarter before we take a clear decision on whether we are going to reduce prices further or if we are going to counter that in some other manner.

**Rohan** You mentioned that roughly 52,000 tons volumes came to 40,000 tons in MDF put together domestic as well as exports roughly 23% down. This is only because of you are not been able to sell in domestic market without reducing your prices, right? Was that the only reason?

**Shobhan Mittal** Yes

**Rohan** Going forward when you are giving a guidance of roughly 25% margins in MDF business as against 28% margins in the last year, are you factoring in price reduction which you have yet not lowered down in the market?

**V. Venkatramani** That is correct.

**Rohan** But is not that MDF is being so capital intensive and if we are not able to utilize our assets properly then definitely margins will be under pressure, so we could have been able to reduce the prices in the current quarter itself and were able to sell in the market or would you want to wait and watch and create inventory in the market?

**V. Venkatramani** Okay, so there was a series of price reductions by competition and we did not want to take any hasty decisions. We wanted the prices to settle down before we contemplated any reduction in our prices.

**Rohan** As of now what we understand that there is only one competitor who has come with?

**V. Venkatramani** There was not a single price reduction. Starting from February and ending in March there were about three price reductions by Action and they also introduced quite a few new schemes. So dealers were apprehensive that there might be further price reductions by Action and so they did not want to enter into further commitments till prices settled down.

**Rohan** But if we understand rightly Action has yet not commissioned the plant, so it is only Century probably which has come with the additional capacities in the market, while Action is yet to come?

**V. Venkatramani** No, Action's new capacity has started production.

**Rohan** Okay, and that is why they are lowering down the prices in the market?

**V. Venkatramani** that is right.

**Rohan** So you mentioned that roughly Century is selling at 10% lower than your average realization?

**V. Venkatramani** No, Century prices would be roughly about 3% to 4% lower than us.

**Rohan** And is Action 7% to 8%?

**V. Venkatramani** Action would be in the range of 7% to 9%.

**Rohan** Is this after their reduction in the prices or earlier?

**V. Venkatramani** that is correct, after their reduction in the prices. They and Century were at a similar pricing level.

**Rohan** So has there been 7% to 8% price drop has happened from Action and you have yet not reduced 7% to 8% prices, so that your prices are still higher?

**V. Venkatramani** that is correct.

**Rohan** So have you been able to create inventory for yourself like by not selling in MDF in the market or is your production also low?

**V. Venkatramani** No, production was higher compared to the sales. So like in this quarter we had production of about 42,000 cubic meters compared to sales of 40,000 cubic meters. We did not want to significantly increase our inventory and thereby create pressure on us for reducing prices.

**Moderator** Thank you. The next question is from the line of Ankur Luhadia from Standard Chartered Bank. Please go ahead.



**Ankur Luhadia** this question is related to fixed asset movement of Rs. 532 crore from FY17 to FY18. Can you please give us the breakup where this Rs. 532 crore has been invested?

**V. Venkatramani** So the major investments have been with respect to of the Andhra Pradesh plant. Till date, we have invested about Rs. 690 crore in the new Andhra plant. Apart from that we have invested about Rs. 43 crore in the Decorative Veneer plant in Gujarat. And approximately about Rs. 30 crore in new plywood unit in UP.

**Ankur Luhadia** Okay, and how much should be capitalized interest in this?

**V. Venkatramani** The capitalized interest for FY18?

**Ankur Luhadia** Yes.

**V. Venkatramani** The capitalized interest for FY18 would be about Rs. 8 crores on general borrowings apart from specific borrowings.

**Ankur Luhadia** And any additional CAPEX that we are projecting for FY19?

**V. Venkatramani** About Rs. 150 crore.

**Ankur Luhadia:** This will be for?

**V. Venkatramani** Just to complete the projects which are already in hand.

**Ankur Luhadia** Okay, the few from MDF new Gujarat and UP?

**V. Venkatramani** Yes.

**Ankur Luhadia** Okay, any additional debt that we are projecting for FY19?

**V. Venkatramani** Yes, to complete the Andhra project we will be taking on debts of approximately about another Rs. 80 crore.

**Ankur Luhadia** This is only for Andhra and for UP plant and Rajkot plant?

**V. Venkatramani** The Rajkot plant is completed, and we have started commercial production. And UP, we have not yet taken a decision on the debt.

**Ankur Luhadia** so additional debt that will come in FY19 would be around Rs. 80 crore?

**V. Venkatramani** Yes, about Rs. 80 crore to Rs. 90 crore.

**Ankur Luhadia** And will CAPEX be Rs. 150 crore?

**V. Venkatramani** That is correct.

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

**Abhijit Sinha** Basically I was wondering that with this new debt that we have incurred with, the interest that we will paying should be increasing by around Rs. 50 crore per year, so how would we plan to reduce this over a period of time?

**V. Venkatramani** Okay, the interest cost will not go up by about Rs. 50 crore because most of the debts that we have taken for the Andhra plant are in foreign currency which would be at much lower rate of interest. So even considering any forward cover cost, so we are projecting about Rs. 30 crore of interest for the new MDF plant in Andhra and about Rs. 3 crore of interest for the Gujarat Decorative Veneer Plant.

**Abhijit Sinha** Alright, is there any projection on how will we pay it off like the period of time?

**V. Venkatramani** we are generating sufficient resources. Like I mentioned our capital expansion program will be more or less completed in the next financial year and thereafter we do not have any further expansion projects in hand. So all the cash flows generated will be utilized for reducing the debt levels.

**Abhijit Sinha** And payback period for these projects would be around?

**V. Venkatramani** Payback period for the Andhra project would be approximately 6 years.

**Abhijit Sinha** And for the Gujarat one?

**V. Venkatramani** Gujarat plant will be 3 years.

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

**Pranav Mehta** What was the cash flow from operations for FY18? Have you taken any price hikes in plywood? Can you share the realizations in the MDF and exports?

**V. Venkatramani** Yes, net cash flow from operations were about Rs. 102 crore in FY18. What was your next question?

**Pranav Mehta** Any price hikes taken in plywood or expected to be taken anytime soon?

**V. Venkatramani** Okay, we had taken a 1.5% price rise in plywood in the March quarter which we expect would be implemented in the current quarter.

**Pranav Mehta** Okay, apart from this any price hikes you are expecting to take? Because of increase in raw material cost that we are hearing about chemicals and everything?

**V. Venkatramani** No, we are not expecting to take any further price increases in Q1.

**Pranav Mehta** Okay, any realizations in MDF exports?

**V. Venkatramani** Realizations in MDF exports in Quarter 4 were Rs. 15,502 per cubic meter and for the full year was Rs. 15,716 per cubic meter.

**Pranav Mehta** Okay, I just missed the CAPEX number for FY18, so how much CAPEX is it that you did in FY18?

- V. Venkatramani** About Rs. 360 crore in FY18.
- Moderator** Thank you. The next question is from the line of Romil Jain from JM Financial. Please go ahead.
- Romil Jain** Just some understanding on the MDF segment. We have seen that the demand for MDF is good and only because of the incremental supply which is coming in its kind of putting some pressure on the realization. So not over a short term period but over a slightly medium to longer term where do you see the prices kind of settling down and the margins settling down in this MDF market? And second what kind of unorganized market is there in the MDF segment?
- V. Venkatramani** We did not take any price cuts in MDF in the last quarter in spite of price cuts by competition. We will continue to stick to our prices unless we see further price reductions by competition. We expect to start commercial production at the new plant in June 2018.
- Once that happens dispatches from the northern plant to the southern states will be shifted back to the north zone, so that will result in a savings of about 2.5% which would be passed on to the consumer. And we hope that will provide a more level playing field as far as competition is concerned.
- Romil Jain** Second question is on the plywood segment. Just wanted to understand how is the progress on E-Way Bill so far? Are we seeing any impact on the unorganized players and organized players getting some benefit, how do you see that?
- V. Venkatramani** No, we have not yet seen any impact out of the E-Way Bill as of now, but we are expecting that over the next two quarters once the government is able to generate some data from the E-Way Bill system, they will start cracking down on the unorganized and that will lead to a significant shift from unbranded to branded over the next two years.
- Moderator** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak** Just to revisit, could you help us understand what will be the CAPEX for FY19 in both Plywood and MDF businesses?
- V. Venkatramani** Capex in the plywood business is expected to be minimal, I think only the routine Capex apart from small part of the Capex for the Gujarat Decorative Veneer plant which was completed in April approximately Rs. 5 crores. Hence, the bulk of the Capex will happen at Andhra MDF plant which would be approximately Rs.100 to Rs.120 crores.
- Kamlesh Kotak** And for Gabon plant, sir?
- V. Venkatramani** Gabon plant we would be investing about Rs. 65 crore over FY19 and FY20.
- Kamlesh Kotak** For the demerger, I wanted to have some color on, what is the business rationale for the 1:1 ratio that has been arrived at while the business of MDF is significantly lower in contribution compared to plywood as of now? So how has the demerger ratio has been worked out, and is it based on your balance sheet?



**V. Venkatramani** It is based on the revenues post-split which will be more or less similar because not just the MDF business, part of the plywood business comprising of the Uttarakhand plywood unit will also be transferred to the new company and post that the revenues will be more or less equal for both the businesses.

**Kamlesh Kotak** So what will remain in the plywood business that the Uttarakhand plant would go with this?

**V. Venkatramani** Nagaland, West Bengal, Gujarat and the trading business of plywood would continue with Greenply. The Myanmar and the Gabon facilities will also continue with Greenply.

**Kamlesh Kotak** Okay but then would the other entity be dealing with in similar products of plywood?

**V. Venkatramani** Yes, the Rudrapur plant would also be in the premium segment of plywood.

**Kamlesh Kotak** So there will be some competition and overlap also in terms of the business for both the companies?

**V. Venkatramani** There might be a slight overlap, but we are trying to build a separate distribution network for the Uttarakhand plywood plant and it will also be sold under a separate brand name so that we do not get into direct competition.

**Kamlesh Kotak** So Greenply would not be common for both the entities in terms of the plywood business?

**V. Venkatramani** That is correct?

**Kamlesh Kotak** Which brand will go to which company?

**V. Venkatramani** The Greenply brand will remain with Greenply and the new company will have the Greenpanel brand.

**Kamlesh Kotak** Okay and there will be a complete demarcation of distribution also between the two?

**V. Venkatramani** Yes significant demarcation of distribution network.

**Kamlesh Kotak** And who would be in charge of the overall management affairs of the business from the promoter's side?

**V. Venkatramani** Mr. Rajesh Mittal and his son will look after Greenply and Mr. S. P. Mittal and Mr. Shobhan Mittal will move to Greenpanel.

**Kamlesh Kotak** That is the MDF business?

**V. Venkatramani** That is correct.

**Moderator** Thank you. The next question is from the line of Anand Dubey, as an individual investor. Please go ahead.

**Anand Dubey** My question relates to plywood business. In FY19 how much growth will we see?

**V. Venkatramani** We are targeting 12% to 15% growth in Greenply plywood business, most of it will come from our entry into the lower segment of the mid segment and Gujarat Decorative veneers.

**Anand Dubey** And what kind of EBITDA margin are we looking at?

**V. Venkatramani** FY18 EBITDA margin was 10% in plywood, we are targeting 100 basis points improvement in the plywood margin.

**Anand Dubey** It is around 11%?

**V. Venkatramani** That is correct.

**Anand Dubey** Okay and what kind of MDF business growth in FY19?

**V. Venkatramani** The existing plant in Uttarakhand operated at about 100% capacity utilization in FY18 and we are expecting similar capacity utilization in the current year. And for the new plant in Andhra which is expected to commence commercial production in June, we are targeting 45% capacity utilization for FY19.

**Anand Dubey** And related to third question our debt level has increased so much so what kind of rate of interest we are looking?

**V. Venkatramani** A significant portion of the debt which we had taken for the Andhra MDF plant, is in foreign currencies. We have taken a debt of about Rs. 300 crores from a German bank where Interest rate is 0.5% and for a \$11 million loan we had taken the interest rate is 3.75% but post forward cover we are expecting about 7.5% interest rate for the new borrowings.

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

**Vijay Karpe** My first question is relating to the new MDF plant. We had first decided not to go for any power plant. Now I have seen your new website it says that you have put up an energy plant from Thermax over there. So what is the capacity there and what is the rationale of going for the plant when we first had decided not to go for it?

**V. Venkatramani** No, our power plant is completely different from an energy plant, energy plant basically raises steam which is required for production. It is not generating power.

**Vijay Karpe** So what is its capacity?

**V. Venkatramani** I will not be able to give you the capacity, I will check with the plant technical team and come back to you.

**Vijay Karpe** My second question is relating to the Gujarat plant. There was an announcement made I think, so one month back some commercial production has started for the Decorative Veneer plant. Are there two new plants which are being set up in



Gujarat because your presentation says that the Decorative Veneer plant near Rajkot will be starting in Q2FY19?

**V. Venkatramani** No, I am sorry that was a mistake, it has already started production in April. Our original target was July, but we started commercial production in end of April.

**Moderator** Thank you. We have the next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania** Just wanted to understand if you can talk about any pricing pressure on the raw material side for both segments?

**V. Venkatramani** We have seen increase in some chemical prices which are linked to crude, but at the moment there has not been a significant impact on raw materials because wood prices which are the main raw materials have remained reasonably stable. So we are not seeing any significant impact of raw materials prices because if you look at the Q4 numbers our gross margins have remained intact even though we have not gone for any price increases.

**Rohit Dokania** But is there a reason to believe that chemical prices could go up further because of the recent up move in crude and could that impact our sort of guidance of 11% margin on the plywood side?

**V. Venkatramani** We have not considered any increase in chemical prices due to increasing crude prices. We do not know whether crude prices will go beyond the current level or whether they will fall because recently Russia and some other countries have informed that they will be increasing the production of crude which will possibly impact prices. So we have not considered any increase in crude prices for our guidance.

**Rohit Dokania** My question was that basically this 11% margin is assuming that crude probably stays where it is currently?

**V. Venkatramani** That is correct.

**Rohit Dokania** And in terms of the sort of plywood plant in UP, what would be the Capex that we would be doing and when would it be sort of operational?

**V. Venkatramani** At the moment we are having a relook at the Uttar Pradesh capacity and probably we will take a decision on that in the next Board meeting which is expected to be towards the end of July.

**Rohit Dokania** So you mean it could be delayed or the capacity could be low or something of that sort?

**V. Venkatramani** Yes, both possibilities exist.

**Moderator** Thank you. We have the follow up question from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade** Just a small clarification, sir. You said in the Rudrapur plant the plywood unit will also go with in Greenpanel. What would be the revenue size of that plant and is



there any possibility of they are competing against us or by setting up new facilities or it can be only this facility they can utilize?

- V. Venkatramani** In last year's revenue numbers, the Uttarakhand plywood unit contributed Rs. 300 crores which I think would be approximately 27% of the plywood revenues. And going forward Greenpanel will not do any expansion in plywood.
- Achal Lohade** Got it, but how about the distribution, would it be the same distribution or how about the brand, would that be same, would that not create any confusion in the markets with respect to the?
- V. Venkatramani** For the Uttarakhand plywood unit we will be going for a new brand Greenpanel and we are also setting up an alternative distribution line so that it does not compete directly with Greenply's plywood business.
- Achal Lohade** You mentioned about the GST refund I forgot to ask you is this a recurring one or this is only relevant for the current year FY18 or this would be accounting for on an accrual basis going forward?
- V. Venkatramani** As the GST refund for the MDF plant is concerned, this year the GST refund was higher primarily because we had two different GST rates, the GST rate was 28% from July and sometime in November it was changed to 18%. And going forward for FY19 and FY20 we will be entitled to the refund of GST which will be approximately about Rs. 10 crores per annum for the MDF business and we are entitled for GST refund for the Nagaland plywood unit I think which is approximately till FY25 and that would be about Rs. 6 crores on an annual basis.
- Achal Lohade** Right and the Uttarakhand MDF plant entitlement is till what period??
- V. Venkatramani** For the current year and next year FY19 and FY20.
- Achal Lohade** You mentioned about the interest cost for FY19 some Rs. 30 crore, Rs. 35 crore, right? In the last call you had indicated Rs. 45 crore and Rs. 60 crore for FY20. What has changed?
- V. Venkatramani** Okay for FY20 I had mentioned a higher rate of interest because in FY19 we will be probably operating for nine or ten months. So for a part of the period two months or three months the interest will continue to be capitalized and once the plant starts commercial production then only interest will be taken to the revenue account.
- Achal Lohade** Correct, so on an overall basis FY19 what should we look at for the company as a whole, Ply and MDF debt put together interest cost?
- V. Venkatramani** So interest cost for the plywood business will continue to remain more or less at a similar level for FY19 and for the MDF business like we mentioned we see an increase of approximately about Rs. 32 crore of interest in FY19.
- Achal Lohade** Got it, so out of Rs. 9.5 crore in FY18 how much is for MDF?
- V. Venkatramani** MDF is negative because a lot of interest was capitalized as per the Ind-AS requirements, so we did not have any interest in the MDF business.

- Achal Lohade** So roughly Rs. 10 crore in ply and Rs. 32 crore in MDF, that is about Rs. 42 odd crore in FY19, is that right sir?
- V. Venkatramani** Rs. 15 crore for plywood.
- Achal Lohade** Rs. 15 crore and Rs. 32 crores, got it.
- Moderator** Thank you. We have the next question from the line of Kaustubh Bubna from Rare Enterprisers. Please go ahead.
- Kaustubh Bubna** Just wanted to understand the long-term growth in the MDF sector. Now there is a myth that MDF is mostly only used for readymade furniture. But I wanted to understand what the big players are doing to increase the acceptability for MDF and handmade furniture because everywhere else in the world it is used. And if you want to get to that, if we want to increase the proportion of MDF versus plywood, we will have to increase the penetration in handmade furniture. So what are your big players doing to increase the awareness to contractors etc.?
- V. Venkatramani** Okay you are correct. At the moment most of the MDF is consumed for manufacturing of readymade furniture and it is not much in use in the residential segment, primarily because carpenters and contractors have a vested interest. Our MDF in pricing terms is about 50%, 55% lower than our plywood prices. Normally a carpenter's labor costs and his margins are linked to the raw material cost. So if he uses MDF his margins are much lower in value terms, compared to if he is going to use premium plywood.
- Hence even if residents want to use MDF the carpenter will do his best to change their minds to ensure that he does not use MDF. We are now educating carpenters and contractors about the benefits of using MDF. One, they can finish the job faster, they can finish projects faster and they also get a much better finish if they use MDF as compared to plywood. And two, we are in discussions with a major consumer which is the government both for use in the Defense and also the Central Public Works Department. So through interactions with these two departments, we are expecting to see a sizable increase in consumption of MDF over the next two years.
- Kaustubh Bubna** Okay and is the cost of capital in actual barrier to entry in this industry because I hear that these small players like I do not want to take names, but you know all the small players who did not succeed in the past, they all say that some of them say that they can actually use secondhand machinery or like low quality machinery from China or something and produce at about 100,000 plus cubic meters at about 40 gross CAPEX cost. So what is that all about?
- V. Venkatramani** No, I am not aware of that and at the moment we do not have any unorganized segment in MDF. We have currently about five players and all are from the organized segment. So if any unorganized players are intending to venture into MDF at this point of time I do not have any information regarding the same.
- Kaustubh Bubna** But is the cost of capital a long-term barrier, I mean you are the expert in this industry?
- V. Venkatramani** Yes so it would depend on what size of capacity you want to install. I would say if you want to make reasonable margins you should have a minimum of 180,000





cubic meter annual capacity which would translate to at least about Rs. 350 crore to Rs. 400 crore of Capex.

- Kaustubh Bubna** Okay fine so there is no way someone can come in and complete the same capacity for about Rs. 50 crore to Rs. 100 crore of CAPEX?
- V. Venkatramani** No, like I mentioned I am not aware of any second-hand machinery being available at these prices.
- Kaustubh Bubna** And this Decorative Veneer plant what is the total revenue potential of that and margin potential?
- V. Venkatramani** Approximately about Rs. 125 crore.
- Kaustubh Bubna** And margin potential?
- V. Venkatramani** About 16%.
- Kaustubh Bubna** Does Greenlam do a similar sort of business in the decorative veneer?
- V. Venkatramani** Yes, that is correct.
- Moderator** Thank you. We have the follow up question from the line of Sneha Talreja from Edelweiss. Please go ahead.
- Sneha Talreja** Could you explain what will be the depreciation policy for our new plant?
- V. Venkatramani** It will be depreciated over 25 years so roughly about 4% annual depreciation.
- Participant** Just to clarify it will not be WDV for the benefit of tax it will be SLM?
- V. Venkatramani** It will be SLM.
- Participant** And sir, you mentioned that 15% EBITDA margins initially in the first year 15% transition level assuming that roughly Rs. 300 crore revenue potential from MDF that is what at 15% maximum right, so with the interest of Rs. 35 crore and depreciation has been that the bottom line contribution in the first year is zero close to from this plant?
- V. Venkatramani** It could be zero or maybe even slightly negative.
- Participant** I mean has some competitor has taken a WDV depreciation policy for claiming tax advantage. We are not following any such practices?
- V. Venkatramani** No, we have different policies. As far as the Ind-As accounts are concerned, we are following the straight-line method and as far as claiming a deduction in income tax is concerned we are following the WDV method.
- Participant** For claiming the tax advantage you will take WDV?
- V. Venkatramani** That is correct.

**Sneha Talreja** Sir, one on the plywood segment what is the growth that we have seen in the premium and on the mid end? I think I missed it in the starting commentary.

**V. Venkatramani** For the quarter or for the full year?

**Sneha Talreja** You could just tell for the quarter as well as for the year if possible?

**V. Venkatramani** we had a volume growth of 7.2% in the mid segment ply and volume growth of 4.5% in the premium ply.

**Sneha Talreja** That is for this quarter?

**V. Venkatramani** This quarter, that is correct.

**Sneha Talreja** And that is for the year would be FY18?

**V. Venkatramani** It was 7.5% for the mid segment and we had a de-growth of 1% for the full year in the premium segment.

**Moderator** Thank you. The next question is from the line of Anand Dubey as an individual investor. Please go ahead.

**Anand Dubey** As far as tax is concerned what kind of tax rate are we looking in FY19?

**V. Venkatramani** We are estimating a tax rate of 25% for FY19.

**Anand Dubey** How do you see the company's growth from three years till now?

**V. Venkatramani** I will not like to give a three years guidance but if you look at plywood we are targeting a 12% to 15% growth in plywood primarily from the lower segment which we are entering this year and thereafter for the next three years we would be targeting a top line growth of about 8% to 10% in plywood. And as far as our MDF business is concerned we are projecting a significant level of growth because our new plant in Andhra will commence commercial production in June and that will give us about Rs. 1,000 crore of top line between FY19 to FY22.

**Moderator** Thank you. The next question is from the line of Govind Raj as an individual investor. Please go ahead.

**Govind Raj** This is regarding the price, we have taken up a price increase in March?

**V. Venkatramani** We have taken a small price increase of 1.5% in plywood in February, that was partially implemented in the March quarter and we expect that to be fully implemented in the June quarter.

**Govind Raj** But have other competitors have reduced their prices?

**V. Venkatramani** No, the price reductions have primarily happened in MDF not in plywood.

**Moderator** Thank you. We have the next question from the line of Pranav Mehta from Equirius Securities. Please go ahead.

**Pranav Mehta** I just wanted to understand on this loss in the wallpaper business and what led to the loss and what are the kind of products that we are currently trading in, any other product that you are expecting to add over next one to two years?

**V. Venkatramani** At the moment, we are involved in three products, wall paper, solid surface and white cement boards. I do not think we will be adding any new products immediately till these products stabilize.

**Pranav Mehta** Okay and what led to the loss in the wall paper business?

**V. Venkatramani** We had some price reductions in the March quarter which led to the loss.

**Pranav Mehta** Okay but going forward you are expecting from this segment and will there be further losses, or will it be curtailed?

**V. Venkatramani** I think there could be further losses in Q1 and probably we will see a positive contribution from Q2 this year.

**Moderator** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to the management for their closing comments. Thank you and over to you.

**V. Venkatramani** I thank you for taking out time to attend this earnings call of Greenply and hope that you will be back for our Q1 numbers in July. Thank you very much.

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