



## Greenply Industries Limited

### Q3 and 9 Months FY19 Earnings Conference Call Transcript February 8, 2019

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Q3 and 9 months FY19 earnings conference call of Greenply Industries. 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 Greenply Industries Q3 & 9 months FY19 conference call. We have with us today Mr. Shobhan Mittal – Joint Managing Director & CEO, and CFO of the company Mr. V. Venkatramani. Before we begin, I would like to state that some statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result presentation that was sent to you earlier. I would now like to invite Mr. Shobhan Mittal to begin the proceedings of the call. Thank you and over to you, Sir.

**Shobhan Mittal:** Thank you. A very warm welcome to everyone present and thank you for joining us today to discuss Greenply's operating and financial performance for Q3 and 9 months FY 2019. 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.

Our plywood business for the quarter stood at Rs. 332.7 crores compared to Rs. 281.1 crores in Q3 FY18, an increase of 18.4%. MDF sales grew by 7.7% at Rs. 123.3 crore. Overall gross margins have been lower by 180 bps primarily because of price reductions and changes in the domestic to export mix in MDF. EBITDA margins are down by 290 bps at 13.1%. One of the main reasons besides the domestic-export mix in MDF is the low capacity utilization in the AP MDF plant which stood at only 29% for the quarter. Ad expenses to sales were also on higher side at 3.2% in Quarter-3 FY19 compared to 1.6% in the corresponding year-on-year quarter. Where the industry is concerned, demand outlook is still slow on the back of weak real estate activity. Impact of GST and e-way bill is still limited as a percentage of invoicing by unorganized players, invoicing is only at 25% to 40%. However, we feel that there will be a gradual shift over the longer term as increase in cost of compliances will lead to price increases by the unorganized segment. We



have seen a steady growth in the plywood segment and we are expecting that this trend will continue for the next 2 to 3 years. We are also confident that we will increase the volumes every quarter in the MDF segment, although it may take us 2 years to achieve optimum capacity utilization due to overcapacities in this segment. The overcapacities would also act as a deterrent to increasing prices to improve margins and profitability. I would now like to hand over the call to Venkat for the financial numbers.

**V. Venkatramani**

Good afternoon everyone. I thank you for joining us to discuss the Q3 and 9 months FY19 financial performance of Greenply Industries. In Q3, our top line was up by 15.1% compared to the year-on-year quarter. Revenue growth of 18.4% was attributable to plywood which encompasses 72.7% of the business and MDF revenues were higher by 7.7% leading to an overall growth in revenues. In Q3, our gross margins reduced by 180 basis points as was covered by Mr. Mittal in his opening comments. This was mainly due to the change in domestic-export mix in MDF, price reductions, and lower capacity utilizations in the AP plant. Average realizations in plywood improved by 2.74% at Rs. 225 per square meter while MDF realizations were lower by 19.8% at Rs. 20,950 per cubic meter due to reasons already mentioned during this call. EBITDA margins for the quarter were down by 290 basis points at 13.1% due to reasons mentioned for reduction in gross margins and increase in sales promotion expenses from 1.6% to 3.2% during the current quarter. Profit after tax was lower by 1% at Rs. 35.7 crore compared to Rs. 36.1 crore in the corresponding year-on-year quarter. The primary reason for increase in profits was due to currency gains on long-term borrowings for the new AP MDF plant. The CapEx incurred during the 9 months amounted to Rs. 95 crore. This comprised of Rs. 69 crore at the AP MDF plant, Rs. 12 crore at the UP plywood plant, and Rs. 14 crore at the Gujarat decorative veneers unit. Our working capital turnover days has increased by 11 days year-on-year due to increase in inventories and 6 days quarter-on-quarter due to increase in inventories and debtors. Our net debt to equity currently stands at 0.77 compared to 0.69 as on 31st December 2017 and 0.80 as on 30th September 2018. That concludes my presentation. I would now request you to open the floor for the Q&A session.

**Moderator**

Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Praveen Sahay from Edelweiss Broking. Please go ahead.

**Praveen Sahay**

Firstly, on the MDF facility; as you had already mentioned the new capacity is running at 29% utilization, that means the existing unit running at a 73% of utilization and we had already seen the competition has given very good utilization rate. Are you losing market share in that vicinity or on compromising the existing one to increase the utilization of our AP plant?

**V. Venkatramani**

I wouldn't say we are losing market share because if you look year-on-year, we have increased our revenues by about 8% and quarter-on-quarter volumes have increased by more than 50%. I don't think we are losing our market share, but now that we have started servicing the southern part from the AP plant, our volumes have declined in the northern plant at Uttarakhand.

**Praveen Sahay**

On the steady state, what level of utilization are you expecting from the existing plant?

- V. Venkatramani** I think we would be targeting about 60% utilization at the new plant next year and close to 85% to 90% utilization at the existing plant in Uttarakhand.
- Praveen Sahay** Also, can you give some detail about the MDF?
- V. Venkatramani** There are not many new players coming in. I think whatever major capacity additions were expected, those have already come into existence over the last 1 year and only significant capacity addition expected is from Rushil Decor in Andhra Pradesh which is possibly expected sometime in FY21.
- Praveen Sahay** On the logistic cost, on a YoY side if I look, your logistic cost stays as percentage of sales is almost same. With the operation of AP plant, is it not possible to reduce it?
- V. Venkatramani** I think it has reduced on a value basis, but since we have seen price reductions happening in the MDF segment, on a percentage basis it has remained almost similar. We have seen a significant reduction in realizations from MDF due to mix of price reductions, change in domestic and export mix, and also changes in the product mix. So, compared to last year, there has almost been a 20% reduction in MDF realizations and that's why although we have been able to reduce freight cost because we are now servicing the southern region from the new plant, on a percentage basis, we are not seeing any reduction in freight cost.
- Praveen Sahay** Can you give the export numbers in the MDF?
- V. Venkatramani** During the quarter, export volumes were 12,679 cubic meters compared to about 5400 cubic meters in the immediate preceding quarter.
- Moderator** We move to the next question from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah** Firstly on plywood, the growth seems to be really very, very strong double-digit. Can you just quantify us to where the growth has come in? Whether it is premium, whether it is commercial grade? This is actually surprising considering the fact that the competition also has shown weaker numbers. Does this mean that you have been taking market share from the competition as well?
- V. Venkatramani** I think that could possibly be a case. If you look at the current quarter, our plywood volumes have increased by 17%, and what is more surprising is that the mid segment volumes have improved by about 9% whereas the premium segment volumes have increased by almost 22% although a part of this could also be attributed to the start of the new decorative veneers unit at Rajkot in Gujarat, but so far volume increases in plywood have surpassed our expectations. We were projecting at 12% to 15% increase in plywood volumes, and during the 9 months' period, that has been almost an 18% increase in plywood volumes. So, yes, it's a pleasant surprise.
- Shobhan Mittal** To add to that, I would like to say that this is also to a certain extent due to the increase in the new network of plywood dealers we are creating for the new brand ; Green Panel. We have almost had now an addition of close to 150 dealers who have taken up the brand of green panel plywood as well. So, this is also contributing overall to the growth of the plywood numbers.
- Nehal Shah** Can you quantify the growth number for the Rudrapur plywood plant because that is what is expected to come to you post the demerger?

- V. Venkatramani** There has been a significant decline in Rudrapur volumes, primarily because of the fact that we are establishing a new brand and also building up a new team for the Rudrapur plywood unit. So, possibly it will take say about a year to 18 months before we reach optimum capacity utilizations at that plant.
- Nehal Shah** What is the extent of decline in Rudrapur volumes?
- V. Venkatramani** If you look at the 9 months' period, there has been almost a 50% reduction in Rudrapur volumes.
- Moderator** The next question is from the line of Jeet Shah from Axis Capital. Please go ahead.
- Jeet Shah** We have been adding capacity in MDF. On a long-term basis, do you think the prices will bounce back or what is your outlook? I am looking at somewhere around 3 to 5 years' perspective.
- V. Venkatramani** I think we won't see any significant improvement in MDF realizations for the next couple of years because there are serious overcapacities in this space. So, I think it will take 2 years before the major players achieve close to optimum utilizations in MDF segment and possibly any price increases will happen only after that period.
- Moderator** The next question is from the line of Nikhil Oswal from Stallion Asset. Please go ahead.
- Nikhil Oswal** I had a few questions regarding the industry demand & supply. Due to oversupply, the prices have been falling. The question is with respect to the previous participants only. How do you see the industry to the prices increasing again or some kind of demand arising again in the industry? Can you throw some light on MDF as well as plywood?
- V. Venkatramani** I think while the overall real estate situation has not been encouraging, we are not seeing any significant reduction in inventories in the real estate, but overall plywood volumes have been very encouraging. I feel that with the implementation of the e-way bill system, the organized sector has started taking away market share from the unorganized segment. That is possibly the primary reason for the 18% increase in volumes that we have witnessed during the current year. As far as MDF segment is concerned, I think demand by itself is quite strong but the problem is that MDF capacities have gone up by about 2-1/2 times over the past 1 year, so that has been the major challenge for all major MDF players. I think, yes, we are not expecting any significant price improvements over the next 2 years because that's possibly what we would estimate for major players to reach close to optimum capacity utilizations.
- Nikhil Oswal** At least not the price increase, do we expect any further fall in the prices?
- V. Venkatramani** I would not rule out price reductions completely but yes, I think we are almost at the end of the cycle. So, although there could be small price reductions in the range of 50 to 100 basis points, I would not expect any major fall in realizations.
- Nikhil Oswal** What were the realizations for plywood and MDF in Q3?
- V. Venkatramani** In Q3, plywood realizations were about Rs. 225 per square meter and for MDF the realizations were Rs. 20,960 per cubic meter and this can be further broken up to about 23,000 in the domestic space and about 13,500 in exports.

**Nikhil Oswal** You expect another 50 to 100 basis points fall going for the maximum?

**V. Venkatramani** Yes, that's the maximum I would expect.

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

**Ashish Poddar** My question is on your forex fluctuation gains which you have reported in the other expenses and your finance cost. How do you see these line items going forward, the impact of forex?

**V. Venkatramani** I am not a currency expert, so I don't think I qualify to giving a view on how currency movements will happen going forward. In the interim period while the borrowings continue to remain un-hedged, there could be volatile movements on either side. We had substantial currency losses in Q2 and we had an almost matching currency gains in the current quarter. So, it could go any way over the next 2-3 quarters while we work out ways to hedge the exposure.

**Ashish Poddar** My second question is on your Bharosa and Jansathi brands. How are they doing? Is there any improvement in the volume there?

**V. Venkatramani** No, it has been more or less what we had witnessed in Q2. We had about similar volume numbers in Q3. So, there has not been much growth in those brands during the current quarter, but going forward over the next 2 years, I think we can see significant growth happening in this segment.

**Ashish Poddar** How is your Ecotec segment doing? Because I believe affordable housing is helping that segment in terms of demand.

**V. Venkatramani** Definitely. We had about 9% volume growth in Ecotec segment during the current quarter.

**Ashish Poddar** And for the 9-month volume growth?

**V. Venkatramani** 9 months, we had a volume growth of about 23% in the Ecotec segment.

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

**Sneha Talreja** Just wanted to know the supply side scenario of MDF. Are we seeing a lot of pressure from the unorganized segment coming in? We were just discussing last quarter that there were lot of unorganized players also who had entered this industry and were selling at pretty low prices. Is that still continuing?

**V. Venkatramani** No, I don't think unorganized will ever be a major challenge in the MDF segment. They might be small irritants during this period when there is overcapacity in the MDF space, but yes, if we take a 3-year view, I don't think unorganized players will be able to survive over the medium to long term. They might create difficulties during this period of 2 years when we expect MDF volumes to ramp up, but I don't think they are really a challenge in the medium to long term.

**Sneha Talreja** What about the pricing scenario when was the last price cut that the industry had seen and have the prices now stabilized?

**V. Venkatramani** We had price reduction towards the end of September and I would say prices look to be stable during the current quarter and going forward.

**Sneha Talreja** One last question was regarding your plywood segment. This quarter you have seen significant volume growth and it looks like you have increased the market share and one of the reasons you gave was that you have increased the number of dealers. If at all you could give more clarity, is that you are giving more dealers incentive schemes which is attracting such kind of a volume growth and you are gaining market share from other organized players?

**V. Venkatramani** No, basically we are continuing with the schemes which we had launched about 2-3 years ago. That is part of the reason and the second part of the reason like Mr. Mittal mentioned that we are adding on new players for the Green Panel plywood brand. So, overall there has been an increase in the dealership.

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

**Achal Lohade** You said premium volume actually increased 22% YoY for the 3rd quarter. Can you help us with the 9 months' number as well?

**V. Venkatramani** During the 9 months, there was overall increase of 18% in plywood volumes and the number for the premium segment was 15%.

**Achal Lohade** And the mid segment?

**V. Venkatramani** The mid segment 9 months' has been 23%.

**Achal Lohade** If I understand correctly, you are saying basically the premium will continue to do well or it will be more driven by the mid end and the low end?

**V. Venkatramani** I think both segments will continue to do well. While low cost housing is driving growth in the mid segment, we are gaining market share from the unorganized segment or the second rung of branded players in the organized segment. So, I feel that going forward both the segments will continue to do well for the next 2 to 3 years.

**Achal Lohade** One can assume a double-digit growth, you mean?

**V. Venkatramani** Yes, expected, definitely.

**Achal Lohade** You had indicated about 60% capacity utilization for South for FY20 and 85% to 90% for North. Can you help us with the margin expectation as well given the kind of drop in realization that we have seen?

**V. Venkatramani** I think despite the drop in realizations, we have had an operating margin of about 20% for the Uttarakhand MDF plant. We have managed to find ways and means to cut wastages on the floor and thereby ensuring that margins do not fall too steeply, but yes, we are not making any margins at the Andhra plant at the current juncture because of low capacity utilization, but if we achieve the target of about 60% for the next year, I think overall we should be targeting an operating margin of 16% to 18% blended for both the plants put together.

**Achal Lohade** Would you be able to give it a separate number?



**V. Venkatramani** I would say probably about 23% for the Uttarakhand plant and about 15% for the Andhra plant.

**Achal Lohade** Just a data point related, if you could help us with the South and North volumes and realizations for the plant?

**V. Venkatramani** During the quarter, overall MDF volumes were 58,647 cubic meters, the Uttarakhand plant had 32,279 cubic meters, and the Andhra plant had 26,369 cubic meters.

**Achal Lohade** And in terms of realizations?

**V. Venkatramani** In terms of realization, the Uttarakhand plant had realizations of Rs. 23,439 per cubic meter in the domestic and Rs. 21,292 in exports. Overall realizations for the Uttarakhand plant were 23,333 cubic meters. However, volumes in exports are very low at Uttarakhand. We had only about 1583 cubic meters of exports from the Uttarakhand plant. For the southern plant, domestic volumes were 15,273 cubic meters at Rs. 22,166 per cubic meter. Export volumes were 11,095 cubic meters at Rs. 12,397 per cubic meter, and overall realizations for the Andhra plant were 26,369 cubic meters at Rs. 18,055 per cubic meter.

**Achal Lohade** That's really helpful, Sir. Just one clarification; is there any GST related refund or any incentive booked in the quarter?

**V. Venkatramani** Yes, we continue to be entitled for GST refund at the Uttarakhand plant. That is accounted for in this quarter also.

**Achal Lohade** Would you be able to give the quantum for the 3rd quarter and 2nd quarter?

**V. Venkatramani** Third quarter approximately about Rs. 2 crore for the Uttarakhand plant.

**Achal Lohade** And 2nd quarter?

**V. Venkatramani** Would have been almost a similar number because there has been no major change in the revenues of the Uttarakhand plant, so more or less similar.

**Moderator** The next question is from the line of Yash Gupta from VED Investments. Please go ahead.

**Yash Gupta** First question is that do we have any competitive advantage to set up MDF plant in Andhra Pradesh in view of IKEA prospective?

**Shobhan Mittal** No, IKEA is not yet sourcing material for production locally. So, at this point of time, we don't really have any idea if IKEA has any plans of setting up a manufacturing facility and whether it would be in the state of Andhra Pradesh or not. We are definitely a supplier on their radar for their planning and we have been in touch with them, but as of today, we are not really seeing any benefit from that.

**Yash Gupta** Second question is that what are the inventory days for the MDF?

**V. Venkatramani** It is 87 days during the current quarter compared to 35 days in the year-on-year quarter and 92 days in the September quarter.

**Shobhan Mittal** To clarify on that, a lot of this inventory is also on account of the plant optimization that has taken place by the plant suppliers. So, when the plant starts, they run the production as per their requirement to set up the plant. Hence, a lot of the inventory is created which may not be what is required in the market. Hence, it is a slow-moving process and that is why the inventory days, especially at the Andhra plant, are much higher.

**Yash Gupta** So, what will be the futuristic number for the next quarter? It may be 80 days?

**V. Venkatramani** Yes, I would expect so.

**Moderator** We move to the next question from the line of Arun Baid from BOB Capital. Please go ahead.

**Arun Baid** Just one clarification; in the presentation on page 15, you have mentioned that in FY19, we expect MDF growth of about 40%. Is that correct, Sir?

**V. Venkatramani** That was the expectation at the beginning of the year. We have not really changed that.

**Arun Baid** What can we realistically expect for the full year, value-wise?

**V. Venkatramani** I think we have done about Rs. 300 crore of turnover during the 9 months' period and we are targeting another Rs. 150 crores during Q4. So, possibly there will be a small degrowth in MDF business. I think our last year numbers were about Rs. 472 crores. So, we would be expecting a small degrowth in the MDF business.

**Arun Baid** Based on what we see today, what kind of margins we will see in MDF for this year FY19? Because when your revenue goes up to Rs. 150 crores, we should see much better margins, right?

**V. Venkatramani** No, it will still depend upon certain factors like what would be the volumes at Uttarakhand and Andhra and what would be the mix of domestic and exports. So, during the interim period, while domestic volumes are sluggish, we would expect substantial volumes to come from exports which will not really be margin accretive. So, I think margin in Q4 will show some improvement over Q3 because of the expected increase in volumes, but I don't expect it to be significant.

**Arun Baid** In Q3, our reported margin is just 20% in MDF EBITDA-wise. How much of that would be forex in that?

**V. Venkatramani** About 7.5% came from forex.

**Arun Baid** So, we would have done about 13%?

**V. Venkatramani** Correct.

**Arun Baid** So, you are trying to say that even in Q4, we should see 13% to 14% margins?

**V. Venkatramani** Yes, I think somewhere around that including the forex part.



**Moderator** The next question is from the line of Harsh Pathak from ICICI Direct. Please go ahead.

**Harsh Pathak** Firstly on the export realization in the MDF division. The number you have mentioned is 12,397 for the AP plant. Just wanted to check it out. Last quarter or last to last quarter, the realization was around 16,000 to 17,000. Am I missing anything in this?

**V. Venkatramani** It is primarily due to the fact that we are entering new markets which have different requirements. During the current quarter, we have entered the Korean markets where they require much lower density. As a result, prices are lower but it does not have a negative margin impact.

**Harsh Pathak** So, basically it is a change in product mix. And secondly in the plywood division, despite the sharp increase in the proportion of the premium product, the margin for the plywood division is low at 10.5%.

**V. Venkatramani** There were 2 factors which impacted the margins for this quarter; one was other income was lower because we had a one-off refund of central excise duty in the last quarter pertaining to earlier years, and secondly, we had some currency losses in the plywood segment during the current quarter. So, although on the business front we maintained the margins, these 2 factors had a negative impact on plywood margins for the current quarter.

**Harsh Pathak** Thirdly, on the finance cost, could you please give the breakup; how much is the interest component and how much is the forex gain in this quarter?

**V. Venkatramani** The forex gain is 12 crore for this quarter, balance is the interest component.

**Moderator** The next question is from the line of Yash Gupta from VED Investments. Please go ahead.

**Yash Gupta** In industry, is MDF becoming substitute for the lower-end plywood products?

**V. Venkatramani** Yes, it is a process which started about 2 years ago because at one point of time, we realized that we didn't want to enter into a price war with the other MDF manufacturers which would be a negative factor for the MDF industry overall in the long term. So, we started penetrating the cheap plywood segment, and I would say almost about 30% of our volumes would now be competing in that space.

**Yash Gupta** Any future expectation in the MDF percentage?

**V. Venkatramani** Yes, I think that's the segment which we expect to grow strongly over the next 2 to 3 years.

**Moderator** The next question is from the line of Rohan from Edelweiss. Please go ahead.

**Rohan** First question is on this plywood growth in the industry. What according to you would have been growth in the last 9 months for the industry per se?

**V. Venkatramani** No, I don't think there would have been any significant growth if you look at the overall plywood industry because real estate has been very sluggish during the past 2 to 3 years and we have not witnessed any significant improvement during the current

year. So, probably it's just a question of taking away market share from the unorganized segment and the second rung of branded players.

**Rohan** So, on one side in volume growth, you are saying the industry has not grown at all and we are now getting into lower-end segment and medium-end segment that is driving actually the entire plywood industry revenue on a lower side only, right?

**V. Venkatramani** Not really. If you look at it, even today, our overall mid-segment volumes would only be about 30% of the total plywood volumes. Although we are expanding in the mid segment, the pace has also kept up in the premium segment. If you look at the 9 months, the growth in the premium segment has been quite encouraging. If you look at these overall 9 months, while mid-segment volumes have grown by about 23%, premium-segment volumes have also grown at about 15% which is significant compared to what have seen in the past years?

**Rohan** So, is the premium-segment industry growing 15%? It is not the case.

**V. Venkatramani** No, definitely not, there is no way considering the situation in the real estate that the premium segment of the industry could grow at 15%. We are definitely taking away market share from other players.

**Rohan** But isn't it that premium segment itself was dominated by you and your competitor by almost 60% to 70% up to that extent?

**V. Venkatramani** I wouldn't say about 60% to 70%. I would say possibly the 2 largest players had almost 50% to 55% market share in the premium segment.

**Rohan** Absolutely right, and if both of you were 50% market share and the industry in premium segment is not growing, you have grown at 17%. It means that now the premium-end segment, you and maybe competitor put together 70% to 80% of market, so the competition that other 50% has completely vanished?

**V. Venkatramani** I have not looked at that calculation. So, definitely post this call, I will have a look at it and perhaps we could have a discussion tomorrow.

**Moderator** The next question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.

**Ronil Dalal** In the ply segment, the realizations are up a little bit. There were no price hikes, right?

**V. Venkatramani** No, there were no price hikes, but we had started the operation of the new decorative veneers unit at Gujarat. So, because of the change in product mix, there has been improvement in realizations.

**Ronil Dalal** And also because your premium has grown faster than your mid?

**V. Venkatramani** No. If you look at the overall 9 months, the mid segment has grown faster than the premium, but yes, during this quarter, premium has grown faster than the mid segment.

**Ronil Dalal** Also, any reason why mid growth was 23% for 9 months but is just 9% for 3Q. Any reason for that?

- V. Venkatramani** I wouldn't be able to give you any particular reasons. Unfortunately, Mr. Rajesh Mittal could not join the call today, he is not well. I will have a discussion with him later and then come back to you on this question.
- Ronil Dalal** The second question is that in South India, you have started a new plant. A lot of people are importing MDF presently in South India because from North to South transporting has been difficult logistically and economically. So, would you be in that case maybe substituting some of their imports and that's why maybe the South India plant, the prices will be much lower ?
- Shobhan Mittal** It's actually a blend. We are targeting certain clients who are dependent on imports. We are targeting end users primarily so that it doesn't disturb our existing retail market. So, yes, you can say that the blended realizations slightly will be lower because many of the clients who are completely dependent on imports are shifting towards us and we are giving them at competitive prices but at the same time making sure that our retail segment is not disturbed by those supplies, our own segment.
- Ronil Dalal** Lastly, in Gabon face veneers which you are getting, are there any issues you are facing in Gabon because there is some political instability?
- V. Venkatramani** No, we have not been facing any issues because of political instability. Although, there have been issues related to delays in shipment because the infrastructure is improving and it will possibly take some more time before we see a significant improvement in the infrastructure, but otherwise as far as operations in Gabon is concerned, we are not facing any issues.
- Moderator** The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.
- Rohit Dokania** Related to MDF, can you talk about the existing industry capacity in MDF?
- V. Venkatramani** I think the industry capacity would be close to about 13 lakh cubic meters currently, and apart from that, imports would be contributing another about 2.5 lakh cubic meters annually.
- Shobhan Mittal** Last year, there was overall import of 3.2 lakh cubic meters. That's the number from last year.
- Rohit Dokania** What would be the capacity utilization out of this 13 lakh cbm?
- V. Venkatramani** It is very difficult because not all entities are listed. So, we don't have the exact numbers for the industry.
- Rohit Dokania** Can you talk about what all capacity is coming in over the next sort of 12 to 18 months including the Rushil one that you spoke about in FY21?
- V. Venkatramani** Yes, apart from that, we don't have any information about any other significant capacities coming up. There could be small capacities coming up in the unorganized space but nothing significant.
- Rohit Dokania** What is the size of Rushil?
- Shobhan Mittal** That is 180,000 cubic meters.

**Moderator** The next question is from the line of Pratik Roy from Stewart & Mackertich. Please go ahead.

**Pratik Roy** My question is what is the margin difference in your premium-segment ply and your mid- and lower-segment ply?

**V. Venkatramani** The premium-segment margins are higher by about 100 to 125 basis points.

**Pratik Roy** The competitors are looking to shifting their focus towards the low and mid segment and they have posted margins might be in a single-digit number, but if you have actually got double-digit number and healthy growth in the plywood segment, so what do you think which thing that did the traction to achieve this double-digit growth, any idea about that?

**V. Venkatramani** We will be targeting growth in both the premium and the mid segments because that would help us to maintain the margins over the medium to long term because if we have to too much of growth in the mid segment, that would have a negative impact on the overall plywood margins. So, we would be targeting growth in both the segments, although it is quite possible that growth in the mid segment could be higher than the premium segment.

**Pratik Roy** What will drive the premium segment growth? You had mentioned that real estate segment is lagging for the last 2 to 3 years and the GST issue is also there. The housing segment, only the fraction of the market, is anticipating that the demand is coming for housing for all the rural segment. So, premium segment product which will drive the growth? My question is that only. What is your anticipation?

**V. Venkatramani** Yes, you are correct. While we do not expect real estate activity to pick up significantly over the next 2 years, the premium segment growth will be primarily driven by taking away market share from the second rung of branded players.

**Pratik Roy** That means the market shares will shift from other's market to your market?

**V. Venkatramani** Other branded players to Greenply, that's correct.

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

**Gautam Bahal** Sorry if you have answered this earlier in the call, but can you repeat what the guidance for FY20 and FY21 is for blended realizations in MDF, and also the EBITDA margin?

**V. Venkatramani** It is tough to give you blended realizations for MDF in FY20 and FY21 because that would depend on the geographical mix of volumes, how much we sell in the domestic space and how much we sell in the export markets, but what we are targeting internally is to have 85% to 90% capacity utilization at the Uttarakhand plant and about 60% capacity utilization at the Andhra plant in FY20 and that would possibly help us to have blended margins in the range of about 16% to 18% for the MDF business overall.

**Gautam Bahal** And that is assuming prices don't fall much from current levels?

**V. Venkatramani** Yes, definitely.



**Moderator** The next question is from the line of Ronil Dalal from Ambit Capital. Please go ahead.

**Ronil Dalal** Earlier in the call you had mentioned that imports were around 2.5 lakhs and last year it was 3.2 lakhs.

**Shobhan Mittal** Actually, I was correcting Mr. Venkat. Last year, the imports were about 3.2 lakhs.

**Moderator** The next question is from the line of Harsh Pathak from ICICI Direct. Please go ahead.

**Harsh Pathak** In the premium products, we have gained market share. What are the factors which have contributed to this increase in the market share? One, you already mentioned increase in the dealer network and is there any price cut we have taken or is there any sales promotion scheme we have taken out there against the competitor?

**V. Venkatramani** We have not taken any price cuts in the plywood business. I would say growth in the number of dealers and increasing effectiveness of the schemes which we have launched for carpenters and contractors that is helping us to increase our volumes in the premium segment and also I think the brand visibility has also increased substantially over the past 2 years. So, that is helping to grow the premium numbers.

**Harsh Pathak** How is our pricing scenario vis-a-vis our competitor? Are we both on the same pricing or is there any difference in pricing in the premium segment?

**V. Venkatramani** I think if you look at pan-India level, there will not be a significant difference pan India, but we are stronger in certain geographical regions while competition would be stronger in other regions. So, there could be differences in pricing on a zonal level but pan India, there should not be any substantial pricing difference.

**Moderator** The next question is from the line of Saurav Jain from HSBC. Please go ahead.

**Saurav Jain** When you mentioned that the invoicing is only 25% to 40% among the unorganized players for GST. What would be the kind of invoicing in the tier-2 organized players from where you are targeting to capture more of the market share?

**V. Venkatramani** I don't have authentic information for that space but possibly that would be quite acceptable. If not 100, I think yes, possibly close to it.

**Saurav Jain** So, that means the opportunities for market share gains would be more from adding more of dealers, better penetrating the market, and introducing more of incentives as you earlier mentioned, but also if you can let me know whether there is a differential in the product quality for the top players and vis-a-vis these tier-2 players?

**V. Venkatramani** There is definitely difference in the product quality for the top 2 players if we compare them to the rest of the industry. Even the manufacturing process is different. We follow what we call Quadra-Pro technology which is different from the second rung of branded players.

**Saurav Jain** Does that also play an important role in influencing the buyer decision?

**V. Venkatramani** Yes, definitely because overall quality is far superior from what we would get from the competition.

**Saurav Jain** Does it increase the life or what really differentiates?

**V. Venkatramani** Definitely it would increase the life of the furniture and you get a better finish and because the surface is smooth, the process of pasting a sheet of laminate or a sheet of decorative veneer would also be far superior. So, overall the quality of the end product – the furniture – would be substantially superior to what you would get from other players.

**Saurav Jain** What might be the pricing difference for this?

**V. Venkatramani** Possibly about 8% to 10%.

**Saurav Jain** Why can't these guys then migrate to these better technologies? What is the key roadblock for these guys to scale up and grow as big as probably you two?

**V. Venkatramani** I think it is possibly the fact that we have been looking at improving our quality over the past 2 to 3 years. We had some quality issues prior to that, so we have significantly improved our focus on quality over the past 2 to 3 years and changes in the manufacturing process can be directly attributable to that.

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

**Achal Lohade** You said at Rudrapur actually the volumes are down 50% YoY, plywood business. How do we understand ex-Rudrapur has done exceptionally well, is that the case?

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

**Achal Lohade** Can you help us with the volume growth for the 3rd quarter and the 9 months, ex-Rudrapur?

**V. Venkatramani** Should I include trading also or leave out the mid segment also?

**Achal Lohade** I think trading you can include, Sir. Total minus Rudrapur?.

**V. Venkatramani** So, total minus Rudrapur volume growth has been 32% in this quarter and in the 9 months total excluding Rudrapur has been 36%.

**Achal Lohade** So, you are saying basically, I presume when you talk about dealer addition that is more for green panel than really green ply?

**V. Venkatramani** It's a mix because like I mentioned, it's a continuous process. So, both the brands would be adding dealers.

**Achal Lohade** But 36% appears exceptionally very, very good and we are saying that we can sustain this good double-digit growth momentum going forward as well.

**V. Venkatramani** Yes sure.

**Achal Lohade** Just one data point with respect to the Deco Veneer. What was the mix for the current quarter and for 9 months?



**V. Venkatramani** I will come back to you on that.

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

**Shobhan Mittal** We want to thank everyone for attending this call. We hope we have been able to clarify a lot of the queries. If you have any further queries, please feel free to contact us directly and we will be happy to answer them. Thank you so much.

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