



Greenply Industries Limited

Q2 & H1 FY19 Earnings Conference Call Transcript
November 12, 2018

- Moderator** Ladies and Gentlemen, Good Day and Welcome to the Greenply Industries Limited Q2 and H1 FY '19 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 the operator by pressing '*' and 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' Q2 and H1 FY19 conference call. We have with us today Mr. Rajesh Mittal – Managing Director; Mr. Shobhan Mittal – Joint Managing Director and CEO; and the 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 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, Rishab. A very warm welcome to everyone present and Wish you all a very happy *Diwali* and a happy New Year. We thank you for joining us to discuss Greenply's operating and financial performance for Q2 and H1 Financial Year 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. 352.97 crore compared to Rs. 316.91 crore in Q2 FY '18, an increase of 11.4%. There has been an impact on the business due to GST being initially introduced at 28% and then subsequently revised to 18%. The initial high rate led to under invoicing by the unorganized sector, only 9% effectively passed on to the Government through GST. Even post the rate revision of 18%, the



effective passed on unfortunately still remains the same. Where the E-way bill is concerned, we are still awaiting the shift from the unorganized to the organized sector. We hope that the authorities will take the necessary steps for reducing tax evasion by the unorganized sector. MDF sales have remained stagnant during the quarter since even after taking price cuts, our prices are 2% to 4% higher than the competition. Overall gross margins were lower by 190 bps primarily because of lower sales realizations.

Moving onto plywood, we are gradually increasing our focus on the mid-segment plywood. The model, like mentioned previously, is 100% outsourced model and we are gearing up to increase our market share in the segment since more unorganized players are approaching us to become contract manufacturers. We have identified vendors across the country. These vendors manufacture according to our specifications and post branding, finished goods are transported by us to the dealers. I would now like to hand over the call to Mr. Venkatramani for the financial numbers.

V. Venkatramani

Good Afternoon everyone, I thank you for joining us to discuss the Q2 and H1 FY '19 financial performance of Greenply Industries. In Q2, our top line was down by 0.5% compared to the year-on-year quarter, revenue growth of 11.4% was attributed to plywood which encompasses over 79.9% of the business and MDF revenues were down by about 28% leading to a marginal degrowth in revenues. In Q2, our gross margins reduced by 190 basis points year-on-year primarily due to lower sales realizations. Average realizations in Q2 in plywood were lower by Rs. 3 per square meter at Rs. 223 compared to Rs. 226 in the corresponding year-on-year quarter. In Q2, MDF realizations were down by about 12.73% to Rs. 23,194 from Rs. 26,576 per cubic meter in the corresponding year quarter. We were, however, able to maintain the gross margins by introducing new products with different specifications.

EBITDA margins for the quarter were down by 460 basis points at 10%. This may be attributed to currency loss of Rs. 9.07 crores on long-term borrowings and outstanding for the new MDF plant and a significant fall in MDF volumes which has higher EBITDA margin. Capacity utilization for the quarter were 42% for the MDF segment and 120% for the plywood segment. Profit after tax was down by 60.8% at Rs. 14.26 crores compared to Rs. 36.38 crores in Q2 FY '18 due to the reasons stated earlier. CAPEX incurred in H1 amounted to Rs. 80 crores, this comprised of Rs. 62 crores at the AP MDF plant, Rs. 12 crores at the Gujarat decorative veneers unit, and Rs. 6 crores at the UP plywood unit. Our working capital turnover days increased by 11 days to 73 days compared to the year-on-year quarter and reduced by

6 days sequentially. Our gross debt to equity ratio now stands at 0.80 as on September 30, 2018. That concludes my presentation. I would now request you to open the floor for the Q&A session. Thank you.

Moderator Thank you. ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravindranath Naik from Sunidhi Securities. Please go ahead.

Ravindranath Naik In the financials you have mentioned two Forex losses, so can you please explain the two losses, one is in other expenditure and other in the interest expenditure?

V. Venkatramani Like I mentioned, the total currency loss in the quarter attributable to long-term borrowings was Rs. 23.8 crores; now of this Rs. 14.18 crores which is the difference between domestic and international interest rates has been considered as part of the finance cost and the balance Rs. 9.07 crores has been considered as part of the currency loss, which is above EBITDA so that is the breakup, the part above EBITDA about Rs. 9 crores and the part below EBITDA which is appearing in the finance cost.

Ravindranath Naik If the Rupee remains at this level, what this cost should be in the third quarter at the current position?

V. Venkatramani If the Rupee remains at the same level, so there would be no currency losses and interest cost for the Andhra plant would be roughly about Rs. 3.5 crores per quarter.

Ravindranath Naik Can you please tell me what is the total sales of Andhra Pradesh plant in this second quarter and provide us the realization and export and domestic sales?

V. Venkatramani The sales from Andhra plant during this quarter was approximately Rs. 18 crores and the overall realization for this quarter for MDF was 23,194 per cubic meter inclusive of exports, it was 24,342 for domestic and 16,396 for exports.

Ravindranath Naik We have exported predominantly from the Andhra Pradesh plant, right?

V. Venkatramani No, it has been a mix of both the plants because we had some pending orders at the beginning of the quarter and also some lower thickness materials which are currently not manufactured in Andhra Pradesh, so those exports were from the Rudrapur plant, hence this quarter it was more or less equal, the export from both the plants were about equal and going forward we expect a higher share for Andhra Pradesh.

Ravindranath Naik How has the sales has been in the third quarter, in the MDF business?

V. Venkatramani It is still more or less stagnant because we had the festival season during October and November, so any pickup would possibly happen after the November 15th.

Ravindranath Naik The last question, because we have already announced the scheme of arrangement the two companies, so how do we see the tax rate going ahead for the two companies and last reason, what is the rationale for transferring the plywood business of this business to Greenpanel?

V. Venkatramani Could you repeat the first part of the question?

Ravindranath Naik Tax rate for two companies, we have already financed the arrangements, so what would be the tax rate going ahead for Greenpanel and Greenply?

V. Venkatramani Greenply will be paying the normal tax rate of 30% plus surcharge and education cess whereas for the MDF business we are expecting a tax rate of around 25% and the rationale behind transferring the plywood business at Uttarakhand to Greenpanel is that, we have two separate businesses within the same premises, both the plywood and the MDF business and this could not be physically separated into two different companies, so that is why we took the decision to transfer that to Greenpanel.

Ravindranath Naik Are we planning to expand our plywood business in Uttar Pradesh going ahead?

V. Venkatramani We are planning to go ahead with the plywood expansion in UP although we are reducing the project cost from what we had mentioned earlier. We had mentioned that we would be putting up a capacity at a cost of about Rs. 120 to Rs. 125 crore, so now we have scaled down that cost to approximately about Rs. 55 crore for the same capacity, so instead of doing the full process of manufacturing plywood at UP, we will just be doing the finishing process, the face veneering and the finishing process at the plant thereby reducing the CAPEX cost.

Moderator Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah Sir, couple of questions, one on the MDF side with respect to the price what you have seen in last couple of quarters now, what is the situation at this point in time and are we likely to see further cuts or has the price cuts over at least as of now?

Shobhan Mittal Nehal, it is very hard to say at the moment how things pan out especially with related to the imports also playing a major role. It seems like the price cuts that have been taken three or four months ago have been put in place and there have not been any major price reductions by other companies in the recent months. Also, we still have some schemes that are going on which vary on a month-to-month basis, but I would not say that there are any drastic price cuts in the pipeline or anything is expected in the foreseeable future because also raw material costs are under pressure and all the companies are feeling the heat of that, so we do not foresee any further price reductions on a domestic level in the foreseeable future because the gap between the pricing of different various companies are much narrower now than it was previously, so that is what the situation is as on today, but it cannot be said for certain what will happen in the near future.

Nehal Shah Sir, any new plants coming in as of now?

Shobhan Mittal No major capacity is coming in, there are one or two small unorganized players in the pipeline. Shirdi is meant to start a thin MDF line, then there is Metro Boards which have started a line now, so there are very small capacities, but no major capacity is in the pipeline on an immediate basis.

Nehal Shah Shirdi you said, they are further expanding?

Management Shirdi is installing a thin MDF line, but again a MDF press so they are very small capacities of about 100 to 150 cubic meters to my knowledge.

Nehal Shah Sir, my last question the AP plant, what was the capacity utilization in Q2 and where do we see capacity utilization falling in the current fiscal?

Shobhan Mittal We had a capacity utilization of 30% in Q2 and we expect to be more or less somewhere between 30% to 40% for the balance six months.

Nehal Shah 30% to 40% of the rated capacity?

Shobhan Mittal That is right.

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

Achal Lohade Sir, can you please share the margin guidance for MDF in FY '19 second half and FY '20 as well?

- V. Venkatramani** We are targeting an EBITDA margin of about 18% for MDF in the second half of the year and we are targeting 20% EBITDA margin for FY '20.
- Achal Lohade** What is the utilization expectations for MDF in FY '20?
- V. Venkatramani** We would be targeting utilization of about 90% at the Uttarakhand facility and about 60% at the Andhra facility for FY '20.
- Achal Lohade** Could you please share the MDF export volumes for 2Q?
- V. Venkatramani** 5,426 cubic meters with an average realization of 16,396 per cubic meter.
- Moderator** Thank you. The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.
- Abhijit Sinha** I just wanted to have basic understanding on what is the demand going on right now and what kind of impact do we have on the elections?
- Shobhan Mittal** The MDF business itself the demand is still growing at the 15% to 20%, the bigger challenge is the surplus capacity that has suddenly come into the country. Over the last year, the overall capacity of production in the country has gone up by 2.5 times, so that is resulting in major pressure on pricing and production volumes, so the demand is constant, what is helping is there is substitution happening with regards to the imported products because of the Dollar becoming stronger, so that definitely has helped to a certain extent. At the same time, conversion from the very cheap segment of plywood even though they are under invoicing, we are being able to counter that with different launches, different category of products in order to compete with them even with full GST applicable on the MDF, so that would result in some increase in the MDF market in the coming few quarters, but as of now it is very hard to put an exact number to the demand growth.
- Abhijit Sinha** Perfect, but do we have any guidelines as in we can see what kind of volumes can be seen in the MDF business?
- Shobhan Mittal** Venkat just shared our expected number so next FY we think of achieving about 90% capacity at Rudrapur, so that would be about 160,000 cubes and about 60% in Andhra Pradesh which is close to about 270,000 cubes including exports.
- Abhijit Sinha** About the election, do we see any impact from them?

- V. Venkatramani** I think possibly we might not see any improvement in the demand situation, but I do not think it will have any negative impact on the business.
- Abhijit Sinha** Sir, one last thing is how do we see the supply problem getting solved out because until the time supply volume is going to be there so it could have suffered, right?
- Shobhan Mittal** This is an aberration that I would say it will remain for the next two financial years. All companies now are working towards expansion of the MDF usage in the market and also conversion from the chief unorganized plywood segment to this, so there would definitely be an oversupply problem which will prevail for the, I would say at least the next 24 months or next two financial years, but then things would streamline because the market size would increase, there are no major capacities coming in as of now. I do not think anyone would dare to look at adding any additional capacities at this point of time, so it would follow the cycle of eventually demand stabilizing with the supply.
- Abhijit Sinha** That will benefit the Greenpanel business and we look at for the plywood Greenply business, we look at volume growth, right?
- Shobhan Mittal** Yes.
- Moderator** Thank you. The next question is from the line of Tina Virmani from Kotak Securities. Please go ahead.
- Tina Virmani** My question is once again regarding the MDF margins, this quarter MDF margins were at around 4.7% as per your presentation, so which is also impacted by your Forex losses, so are the borrowings hedged at the current levels or we may further see some kind of Forex losses if the currency fluctuations continue to happen in the second half of FY '19?
- V. Venkatramani** We cannot hedge the borrowings, because the disbursement of the major loan which is from a German bank is not yet completed. It will possibly be completed either in December or January and only after the disbursement is completed, we will get to know the due dates for repayment and accordingly can take a call on hedging the currency exposure. So probably around January when the disbursements are completed, we will take a call on covering the borrowings, depending upon the prevailing cost of taking the forward cover, whether it makes business sense or not. I will explain it to you further. In fact, we had taken a similar loan from the German bank for the first MDF plant at Uttarakhand and at that point of time forward cover costs were around 7% annually and we decided not to take a forward cover because we

studied the Rupee depreciation which was approximately about 4.5% on an annual average basis. Hence, we decided not to take the forward cover at that point of time. So, depending upon prevailing circumstances, we will take a call on hedging the borrowings.

Tina Virmani So if there is further currency fluctuation, we may continue to see some kind of pressure on MDF plant?

V. Venkatramani We could see further hits in Quarter-3, that is correct.

Tina Virmani Even if we adjust for the 9 crores of Forex loss which is provided as of now in the MDF margin, even if we adjust with that the MDF margin stand at around 15%, so you have guided for MDF margins of around 18% in second half of FY '19, so does that mean that MDF realizations are likely to grow in the second half of FY '19?

V. Venkatramani Not really, we expect a better utilization of the capacities because although we had utilization of about 30% at the Andhra plant, but that does not translate into sales volumes, sales volume is only about 9000 cubic meters from Andhra plant against production of approximately about 27,000 cubic meters, so with better sales volumes in the current quarter and the March quarter we expect the operating margins to improve.

Tina Virmani How do we see the overall volumes for MDF including our existing plants as well as AP plant for this year because so far we had restricted the volume owing to pressure on realization, so how do we see overall volume outlook for FY '19 for MDF?

V. Venkatramani If you look at it we have sold about 74,000 cubic meter in the first six months of the current year and we would be targeting approximately another 1,30,000 to 1,40,000 cubic meter in the second half, so looking at around 2,00,000 to 2,10,000 cubic meter for the entire year.

Tina Virmani That is possible, because that would be almost doubling the total quantity which you sold in first half of FY '19?

V. Venkatramani As Mr. Mittal mentioned at the beginning of the call, initially we did not take any response on the price cuts by competition. We did not want to enter into a price war with other MDF manufacturers, so we decided to take a backseat and study the situation and then give a response. We had decided towards the end of September to take some price cuts and then we also rolled out some new products for taking on the competition in MDF as well as targeting the cheap plywood segment, that strategy is in place now and I think our sales team will be able to move forward with greater confidence in the second half.

- Moderator** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
- Ashish Poddar** My question is with regard to the MDF margin, so next year we are targeting 20% kind of EBITDA margins, so do you think this 20% to 22% kind of range is going to be a new normal for MDF margins?
- V. Venkatramani** We expect so, two reasons for that one is that we expect to do a substantial volume of exports from the AP plant for the next couple of years and export margins are substantially lower than domestic because realization is about 35% to 40% lower than domestic realization, so I think at least for the next couple of years we think MDF margins would not cross 23%.
- Ashish Poddar** So that is my question, as we are targeting more of exports, so this 18% to 20% is the new normal for the next three to four years or 20% to 23% is the new normal?
- V. Venkatramani** I think 20% to 23% is what we are targeting at this point of time after considering all the price cuts and other strategic decisions that we have taken, we think that a margin of about 20% to 23% is achievable.
- Ashish Poddar** You talked about the CAPEX in UP which was lower to Rs. 55 crores, so are you going to outsource the basic material and do only the finishing part, this is what we meant is it?
- V. Venkatramani** That is correct.
- Ashish Poddar** My last question is regarding this MDF, we saw lot of disturbance due to oversupply of capacity, do you think over the next five years the demand for plywood will be shifted towards MDF and we will see lower growth in plywood and higher growth in MDF or do you see that the plywood and MDF both will continue to grow, maybe the MDF will continue at a faster pace but plywood would also have other big markets?
- Shobhan Mittal** The segment of plywood that Greenply caters to which is the high end or the mid-segment, in that segment MDF does not affect demand or create competition in any sense because they are completely different price brackets. The real competition of MDF is with the very low-end segment of plywood in which Greenply is not active. In that segment, it is with the unorganized segment, so talking about Greenply as a standalone entity, we do not foresee that growth of MDF would shift from plywood would affect the plywood business in any which manner, so we foresee that the MDF business of Greenply would benefit from the shift of the unorganized segment whereas the plywood business

on its own will continue to grow with the market growth of 8% to 10% and at the same time by Greenply taking further share in the mid-segment through the outsourcing model, the plywood business of Greenply will not be affected by the MDF growth in any which way.

Ashish Poddar My last question is on demerger thing, when is this going to happen, so when both the separate companies will be listed on exchange and also what are the clauses regarding the new CAPEX in both the businesses, so when you talk about Greenpanel, will this entity be able to stand capacity in the plywood and this plywood, will Greenply be able to get into the MDF business, is there any clause there?

V. Venkatramani We cannot give any definite dates because it is in the hands of statutory authorities like SEBI and NCLT, so we will not be able to give you a definite date for when the demerger will be completed, but based on our past experience we are expecting that probably we will get the necessary approvals by the end of March 31st of the current fiscal.

Ashish Poddar This CAPEX in both the businesses, ?

V. Venkatramani Apart from the UP plywood expansion and expansion at the Gabon face veneer plant, we are not looking at any other expansions currently.

Ashish Poddar My question was when can Greenply enter into the MDF business?

Shobhan Mittal We have a non-compete clause as part of the scheme, so Greenply for a certain period will not enter into MDF business and Greenpanel, apart from its existing plywood capacity at Rudrapur will not expand any plywood capacities.

Ashish Poddar For how many years?

V. Venkatramani I think it is up to 7 years. It is part of the demerger scheme.

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

Sriram Rajaram Couple of questions from my end, after the price cut which we are talking about in the MDF space, what will be the pricing gap between the imported player and say likes of Century, Action and others? The second question is ideally is it only because of the market share loss which we are facing because we are not reducing the price and because of that we are facing pressure on volumes or is there something to it because ideally Rupee depreciation should help us, we should get more competitive?



- V. Venkatramani** Regarding the first part of your question on the price gap between organized players and imports, so there are two segments in MDF, one is the thick MDF segment and other is the thin MDF segment. At present there is anti-dumping duty only on the thick segment, so there the price gap is about 8% to 10% and in the thin segment where there is no anti-dumping, currently the price gap is about 25%.
- Sriram Rajaram** And between the branded players?
- Shobhan Mittal** Within the branded players, there would be a difference of about 2% to 4%.
- Sriram Rajaram** This is post the price cut?
- Shobhan Mittal** Yes, the current price gap.
- Sriram Rajaram** Who has the most premium range or who is the most expensive player, which player?
- Shobhan Mittal** We have the highest price point.
- Sriram Rajaram** And regarding the volumes?
- Shobhan Mittal** Volumes have reduced because of surplus capacity and the new players basically sharing the market share of the existing market. It is not that the market is not growing or the consumption has reduced in any which way. If you see Century has had a very decent capacity utilization, they had revenues of close to Rs. 60 to 65 crores in the last quarter and this is primarily because market share has gotten divided from us and other players and being taken away by the new entrants, but there is no other reason for the dip in volumes for us.
- V. Venkatramani** The next part of your question regarding whether Rupee depreciation is helping us to compete against imports, it is not really helping us because other Southeast Asian currencies have also depreciated against the Dollar, so they are reducing their prices in dollar terms.
- Moderator** Thank you. The next question is from the line of Govind Raj, an Individual Investor. Please go ahead.
- Govind Raj** Basically two questions, one is regarding the Forex rate whether we are having any forward covers to protect it or it is not hedged?
- V. Venkatramani** Like I mentioned earlier, our disbursement from the German bank which is approximately about 40 million Euros is pending to a small extent and only after the disbursement is completed, we will get to

know the due dates for repayment so that disbursement should be completed either by December or January and then depending upon the cost of taking the forward cover, we will take a call on whether we should hedge the borrowings or keep it open.

Govind Raj This Forex rate is fully for the MDF plant or for both plywood and MDF?

V. Venkatramani Foreign currency borrowings are for the new MDF plant, on the raw material imports front, we cover all our currency exposures.

Govind Raj It should be for the both the plants then?

V. Venkatramani No, it is only for the Andhra plant because we have repaid all our borrowings for the first MDF plant.

Govind Raj Sir, regarding this plywood segment we are operating our plants at nearly 110% of the capacity, are there any additional capacities would be coming up or it will be done only through the outsourcing model?

V. Venkatramani We are in the process of setting up a new plywood plant in UP, so that will be at an cost of approximately Rs. 55 crore.

Govind Raj Will that be done from the internal accruals?

V. Venkatramani It will be a mix of debt and internal accruals.

Moderator Thank you. The next question is from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.

Kaustav Bubna Just wanted to know if two unorganized players have entered the MDF market, what is stopping another 20 to 50 to 100 players entering this market and for destroying prices in the market because they clearly do not care about, they do not see that long-term vision, full supply be met with demand, they come in with greed and then they destroy the market and what is the price differential between them and the imports coming in?

Shobhan Mittal I do not think, MDF has traditionally, if you look at the worldwide scenario it has been about organized volume kind of a business, so I do not see the smaller players posing a threat of destroying the market because the operation cost of such plants or smaller plants ends up being much higher and the cost of production is much higher compared to larger players and with the new continuous plants that the larger players are able to put. The smaller players will never be able to invest into such plants, so we do not see that happening and with regard to the pricing difference, I would say they would be about

5% to 7% lower than us, but they always end up being a regional player. They are not able to offer the entire basket of products that we can, they are not able to provide the sales and the support, so they will always end up being a regionalized player affecting a certain portion of the market only, so the threat does not come from these unorganized players, it mainly comes from larger players with surplus capacity and that is the situation today as well. When we look at price cuts, we really do not pay attention to the small 100 to 150 cubic meter players. Primarily, today the price is driven by three major players in the country, which is Century, Action, and Greenply.

Kaustav Bubna Could you also just give me the breakup in the first half of this year for the growth in premium plywood for Greenply versus the growth in this outsourced plywood segment, I wanted to know out of your total sales and volume growth, what was your premium plywood volume growth and sales growth versus your outsourced plywood sales growth and volume growth, I wanted to see how much that outsourced plywood contributed to your total sales and volume growth in plywood and also could you give me some indication of where this demand in plywood is coming from. I wanted to understand if I am a small organized plywood manufacturer with not much brand recall today, how easy or tough would it be for me to establish myself in the plywood market today taking into consideration the current competitive dynamics, and let us say I have done like how easy would it be for me to get to like Rs. 200 to 300 crore of revenue?

V. Venkatramani Regarding the first part of your question on volume for Greenply and outsourced material, we sold a total of 29.29 million square meters in the first six months out of which the outsourced component was 10.42 million square meters which in volume terms is 36% of the total and in value terms is about 27%, so compared to the corresponding period last year we had sold 32% of the total which came from outsourcing and in value terms it was 24%. Regarding the growth, we grew by about 31% in volume terms during the first six months of the current half in the outsourced segment and about 12% in the premium segment.

Kaustav Bubna This premium segment is reviving. which was stagnant over the last few quarters?

V. Venkatramani That is correct.

Kaustav Bubna How is this revival coming like why is this revival coming, is it sustainable, from the end customer point of view where are you seeing this demand revival coming from?



- V. Venkatramani** It is a mix, like we mentioned we have grown strongly in the outsourced segment where growth has been about 30% in volume terms in the first half.
- Kaustav Bubna** I am only talking about the premium plywood?
- Shobhan Mittal** In the premium segment, we have grown by about 12%. It is primarily coming from the residential segment because our premium ply is generally utilized in the residential segment, not much in the commercial and retail segment because it is expensive, so that means it is coming mostly from the residential segment.
- Moderator** Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.
- Bajrang Bafna** Sir, just if you could clarify it further, the Forex loss you said on the finance cost the difference between domestic and the international rate has been taken which is around Rs. 14 crore, so just if you could briefly explain the calculations behind this number, how it has, and if Forex stays here then why it will not recur again?
- V. Venkatramani** We have two foreign currency loans for the new MDF plant in Andhra Pradesh. One is 40 million Euro loan from a German banker where our cost is approximately about 0.5% annually, and second loan of US\$ 11 million from Standard Chartered Bank. Our domestic interest rates are currently about 8.5%. For the German bank loans, the interest rate is 0.5%, so the difference of ~8% is being taken to interest cost and for the Standard Chartered loan the difference of 8.5% and about 3.75% that being taken to the interest cost.
- Bajrang Bafna** What is the rationale for it, is it required by Ind-AS?
- V. Venkatramani** That is right, it is required by Ind-AS.
- Bajrang Bafna** Because this is all notional because we have not started paying the interest cost?
- V. Venkatramani** Correct, these are MTM losses.
- Bajrang Bafna** But suppose when we start paying the interest cost and because at that time also this will stay at 0.5% and the same rate, so what will be the treatment at that point of time?
- V. Venkatramani** So, whatever we are paying since we are already accounting for the MTM losses, so whatever we are paying at that point of time will go into the interest cost.

- Bajrang Bafna** If you take a forward cover then rate will be including forward cover and if you do not take any forward cover then maybe at 0.5% plus Mark to market?
- V. Venkatramani** That is correct.
- Bajrang Bafna** How is this Mark to market has been calculated?
- V. Venkatramani** On the basis of foreign currency rates as on September 30th, so the difference between the foreign currency rates as on September 30th and June 30th.
- Moderator** Thank you. The next question is from the line of Dhires Pathak from Goldman Sachs. Please go ahead.
- Dhires Pathak** Sir, in 1H the MDF volumes is down 22%, so can you just give some color like what is the overall industry volume consumption growth in India and how much of that is met by imports?
- V. Venkatramani** Overall MDF market would probably be somewhere about 7.5 lakhs to 8 lakhs cubic meters per annum and we think currently about 35% of that volume is coming from imports.
- Dhires Pathak** This year in the first half, what would have been the growth or degrowth in overall domestic consumption?
- V. Venkatramani** We think overall the MDF market in India is expanding at about 15% to 18%.
- Dhires Pathak** So in 1H also it would have been 15% to 18% and in that environment we have degrown by 22%?
- V. Venkatramani** That is correct.
- Dhires Pathak** It is Century and others who have added capacity that has taken that growth is it, or you have the share?
- V. Venkatramani** I think definitely part of it.
- Dhires Pathak** Similarly industry growth can you give for the plywood where we have grown 18%, what would have been the industry volume growth in 1H?
- V. Venkatramani** I think if we look at the overall plywood industry, it is either stagnant or there is some degrowth happening and possibly only the top two to three players are growing at this point of time?

- Moderator** Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.
- Pranav Mehta** My question is related to raw material cost, so how are you currently facing any pressure on the raw material side like in both MDF and plywood?
- V. Venkatramani** Nothing substantial although some chemical prices have gone up slightly primarily phenol and melamine prices have gone up, but their consumption is not very high in plywood and MDF segment and log prices are relatively stable, so no, we are not facing any raw material pressures at this point of time.
- Pranav Mehta** On the MDF export side are you seeing any increase in the competition from other Asian countries like the fall in their currency has actually lead to more competition being faced by you, but any big capacities that are coming in which might hamper your plans for this MDF export growth?
- Shobhan Mittal** The challenge that we are facing in the domestic market is in a way a blessing for us in the export market because these are already established players and we are primarily competing to take away market share from these guys. India to a certain extent in the markets that we are catering to India has a slight strategic advantage in terms of being closer to the Middle East or to Sri Lanka. Iran is a country that we are looking to do business with, India has much easier business possibilities from Iran, so that would allow us to gain some market share and take away from these guys although there has been capacity expansion in those countries as well.
- Moderator** Thank you. The next question is from the line of Arun Baid from Bank of Baroda Capital Markets. Please go ahead.
- Arun Baid** In your presentation you mentioned that MDF is going to grow at 40% for FY '19, so if I do the Math it is roughly Rs. 670 crore for the full year, is that correct?
- V. Venkatramani** Yes, that is what the guidance we had given at the beginning of the year. Since there is not sufficient clarity, we have not revised the guidance, but I do not think we would be achieving that 40% growth, probably we would currently be targeting somewhere about 25% to 30% growth.
- Arun Baid** 30% would be roughly about Rs. 600 to 650 crore?
- V. Venkatramani** About Rs. 550 to 570 crore.

- Arun Baid** The second thing was on exports of MDF, our currency has depreciated by more than 10% 12% over the last quarter itself and still we did not do very well in exports in this quarter, I understand maybe there were lack of orders, but why cannot we go for aggressive sales target than exports, even the domestic situation is tough because of competition, why is not that coming through,?
- Shobhan Mittal** Because in exports, even the competition is facing the same situation with their currencies, so the unit rates in Dollar terms are also being reduced internationally, so the benefit that we have with our currency depreciating, the same benefit is there with the competitors as well like if we talk about Thailand or Malaysia or Indonesia, so those are the same so it is not that this is giving us any major advantage in terms because what was traditionally being sold at \$ 200 a cubic meter is now being reduced to \$ 180 or \$ 185 a cubic meter internationally as well.
- Arun Baid** Second thing is with regard to plywood, we have done pretty well, can we get some light so that growth guidance still hangs on the 12% to 15% going ahead?
- Shobhan Mittal** Yes, that is correct.
- Arun Baid** In the margins, there would be more than 11% because once your volume growth is very good and we have replaced all our plywood with Gabon face veneer, I think the margin pretty should be much better than 11% going ahead?
- Shobhan Mittal** Not really because significant part of our growth is coming from the outsourced model where our operating margins will be lower by say about 9% to 9.25%, I think for the current year we will stick to that margin guidance of 11%.
- Arun Baid** When will the UP plant come in?
- V**
- V. Venkatramani** We would expect to start the plant in October next year.
- Arun Baid** Sir, just one more thing was at least on the working capital side, can we see more improvement going ahead?
- V. Venkatramani** I think definitely on the inventory side there is substantial scope for improvement especially in MDF where our inventory has gone up because of commencement of operations at the new MDF plant, so we

would be targeting substantial reduction in MDF inventories over the next two quarters.

Moderator Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania Just one question from my side if any of you can sort of give us an overall sense of what is the MDF industry capacity in India either on a daily basis or an annual basis, and currently at what capacity realization could the industry be working at?

Shobhan Mittal We think that currently the MDF capacity in India is about 13 lakh cubic meters including imports that would probably add another 2.5 lakh cubic meters. Domestic would probably be operating on an average of about 50% to 60% capacity utilization.

Rohit Dokania You mentioned that not much of capacity expected at least over the next year or so barring from small players, so it means that at least for the next sort of two years, it will take at least another two years for the capacity utilization to really reach 80% assuming the industry continues to grow at 15% to 18% as you mentioned?

Shobhan Mittal That is correct.

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

Shobhan Mittal Thank you very much everyone for joining the call, do feel free to get in touch with us or Venkat directly if there are any further questions. With this, we would like to close this call. Thank you so much.

Moderator Thank you. Ladies and Gentlemen, on behalf of Greenply Industries Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.