



## Greenply Industries Limited Q2 & H1 FY'21 Earnings Conference Call November 5, 2020

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**Moderator:** Ladies and gentlemen, good day and welcome to Q2 & H1 FY'21 Earnings Conference Call of Greenply Industries Limited. As a reminder, all participants lines will be in 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. 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 Q2 & H1 FY'21 Conference Call. We have with us today, Mr. Sanidhya Mittal -- Joint Managing Director; Mr. Manoj Tulsian – CEO and Chief Financial Officer -- Mr. Mukesh Agarwal.

Before we begin, I would like to state that some statements made in today's discussion maybe forward-looking in nature and may involve 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 Mr. Manoj Tulsian to begin the proceedings of the call. Thank you. And over to you, sir.

**Manoj Tulsian:** 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 Q2 & H1 FY'21.

As this pandemic continues, we hope and pray for a turn towards strong positive news in the new year for health of all of us, our people and also, most importantly, the economy.

I will begin by briefly touching upon some of the "Financial Highlights." Net sales for standalone in Q2 FY'21 stood at Rs. 237.4 crore vs Rs. 344.1 crore in Q2 FY'20, a decrease of 31%. Gross profit stood out Rs. 94.1 crore vs Rs. 136.5 crore in Q2 FY'20. Standalone Q2 FY'21 EBITDA margins are relatively strong at 10.6% despite decrease in sales, while PAT stood at Rs. 14.3 crore vs Rs. 22.9 crore.

You will recall on our previous call; we had indicated our belief in delivering operating margins similar to the last year. We are delighted that this belief has been found to be justified and are optimistic that margins will be at similar or better levels in the second half.



Our average realization in plywood though have decreased from Rs. 224 in Q2 FY'20 to Rs. 211 per square meter in Q2 FY'21 due to product mix change, but the same is expected to improve in coming quarters.

Standalone debt-equity ratio improved significantly to 0.21 as on September 30, 2020, as compared to 0.47 as on September 30, 2019 and 0.4 as on 31st March 2020. Our net debt level stands only at around Rs. 15 crores as on 30th of September.

We continue to focus on making Greenply future ready as we spoke last time. Our sustained endeavor is on improving operational efficiencies, strengthening our marketing and distribution and increasing automation. All of which we believe will put in place a strong platform for sustained growth. We are encouraged by some of the near-term results of our initiatives in the form of improved working capital cycle and healthy operating margins despite a very difficult macro environment. An example of this is the significant reduction of our receivables by almost around Rs. 155 crore in H1 FY'21 which has been achieved through a stringent focus on keeping credit in check and tightening our supply chain.

The environment too is also gradually getting better, as evidenced in our improved capacity utilization, which stood at 107% for the quarter under review. I look forward to steady progress and improving performance going forward.

We have also taken several steps towards strengthening our sales penetration and expanding our distribution network so as to improve our rural presence. Cognizant of our relatively weak presence in rural India, and as we saw that rural actually bounced back faster in this pandemic situation, we have added a large number of dealers across these areas. These additions, we hope will contribute well to sales in the medium to long-term.

The performance of our Gabon operations has also been encouraging, and we are optimistic of tracking similar level of growth in the second half.

I must also take this opportunity to thank you all and the employees for the hard work that has been put in during these challenging times.

We will be happy to discuss your thoughts and views during the Q&A.

Now I would like to hand over the call to Mr. Mukesh to discuss some more details of Financial Performance. Over to you, Mukesh.

**Mukesh Agarwal:**

Thank you, sir. Good day everyone. I thank everybody for joining us to discuss Q2 & H1 FY'21 Financial Performance of Greenply Industries.

Although economically, we witness positive changes gradually with ease in restrictions, we still hope and pray that all of you and your loved ones are safe.

Our consolidated entities net sales for the quarter stood at Rs. 294.6 crore compared to Rs. 378.9 crore in Q2 FY'20 a decrease of 22.3%, primarily the result of the ongoing pandemic as well as increasing discipline being adhered to with regard to credit terms.

Gross profit stood at Rs. 116.6 crore vs Rs. 159.7 crore in Q2 FY'20. Operating margins remain healthy at 11.4% as compared to 11.9% in the previous corresponding quarter despite the decline in top line.

We have made encouraging progress towards strengthening our balance sheet and operations. Consolidated debt has reduced to Rs. 194.7 crore in H1 FY'21 vs Rs. 282.5 crore in H1 FY'20. Consolidated debt reduction of Rs. 72.7 crore in the ongoing financial year. Consolidated debt-to-equity ratio also continue to decline standing at 0.51 as on 30th September 2020 as compared to 0.75 as on 30th September 2019 and 0.71 as on 31st March 2020.

Maintenance CAPEX incurred in H1 FY'21 for Greenply consolidated accounted to Rs. 8.3 crore.

Our thirst continues to be towards strengthening the financial metrics of the company.

I would like to hand over the call to the moderator to open the floor for the Q&A Session. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah:** So, first to start with, on the plywood side, can you give some sense as to what is happening between the mid category and the premium category and even the low category as to how we are doing and what we are doing considering the fact that our realizations have dipped in the quarters, and what is the way ahead for each of these categories?

**Manoj Tulsian:** Good morning, Nehal. Thank you. See, this reflection of reduction in the overall average realization is something which is within our control only. If you see one of the statements which I made in my opening remarks is that we have also now moved to rural, and that rural penetration there has been initial placements, which has been as strategically thought that the mid or the low end is something which will take a space there. So, we are evaluating because the first level of placements has happened and that is one of the reasons that the realization has been slightly lower. But if you also see, the margins have not got impacted at all, because of this. I also mentioned in my opening remarks that going forward this will again improve. So this is trial and error method, we have to also assess the market that what is the true demand in the rural segment. And accordingly, we are also working on looking at placement of some of our premium products also. So give us a few quarters and I think we will be in a better place to answer this particular point to you.

**Nehal Shah:** Sure. And so is it safe to assume that low end would have grown and mid would have like partially degrown and premium would have degrown more as a category?

**Manoj Tulsian:** Yes, yes, you can say so. One of the reasons also I will tell you is which we also discussed in the last call is the metro cities are still not contributing to the extent what they were contributing in our overall sales in the last couple of years. So, that sales are still low. And we are now very hopeful that most of those markets have now opened up in the month of October and November. So that also is going to boost my overall realizations.

**Nehal Shah:** Right. And sir, on the demand side, has October started turning around as far as premium category is concerned, and also as far as overall plywood volumes is concerned?

**Manoj Tulsian:** Yes, to be very honest, we have not seen any real pressure on the premium side of the category also. Okay? As I told you that mainly these numbers show that pressure only because most of the tier-1 cities, the metro towns have still not performed to their potential. And you would have seen that we have done a massive correction in our debtor's realization strategy, the credit control. So, to some extent, the pipeline inventory has also got corrected. In fact, we are so happy that despite that correction, we have been able to do a decent number in Q2 which means going forward, we can only think of doing better performance.

**Nehal Shah:** So possibly our volume would have been held back because of our consistent correction in receivables. And now with receivables largely in place as far as correction is concerned, is it the right way to assume that our sales volume growth will be stronger than earlier?

**Manoj Tulsian:** Well, that is how I would look at it for sure. But, of course, we have to work hard. And for sure, I can tell you that, we are working on all sides to make sure that this actually becomes a reality.

**Nehal Shah:** Great. And sir, my last question would be on margins. Despite the fact that we have moved on our contribution from low and mid as well as lower contributions on decorative veneer, on a 30% decline in volumes, probably I would have anticipated a much more decline in margin. So, can you give some reasons as to how margins have held up so far, and what is the likelihood of margins with the volumes recovery likely in place going forward?

**Manoj Tulsian:** So two points, Nehal; one, we used this pandemic as an opportunity to cut down some of the expenses which we felt is more of 'good to have' rather than 'must have.' Right? So we worked on that principle. So that is still helping us because if you really see travel is still not back to the same level where it was. And I think expenses on items like travel or even maybe a few other expenses like the office expenses and other things, we have been able to cut down. And we feel that that can be the new normal. There will be definitely some amount of increase, which will happen. And I am sure once the vaccine gets announced sooner or later, three months, six months, nine months, sure the fear of the people will reduce, and, of course, we will do more groundwork also. Today, to some extent, we are also holding our employees to do a groundwork to that extent because we also care for our employees. Right? But having said that, I think some of these expenses which we were able to cut down will come back once things become normal. But at the same time, I have also been speaking last time that we have done significant improvement in terms of building up the efficiencies. And that is why I was very confident in the last call also, that despite a lower sale for the full year, we will be able to demonstrate a margin in double digits. And looks like we will be on track for the same.

**Nehal Shah:** Right. Sir, what about the A&P spends?

**Manoj Tulsian:** A&P spends is slightly lower; I think it is around 3%. This is one area where, of course, going forward, we would maybe be increasing our spend to some extent also in the coming year. And we are very confident that since we will be adding up a lot to the EBITDA margin, we would be able to still maintain a decent EBITDA

margin with a higher spend on A&P going forward. Every step what we are taking now is to make the company future ready, whether it is from the balance sheet side, whether it is from an efficiency build up, whether it is from a supply chain, whether it is from automation perspective.

**Moderator:** Thank you, sir. We have next question from the line of Arun Agarwal from Kotak Securities. Please go ahead.

**Arun Agarwal:** Can you just help us out as to how the industry growth was on the plywood side in second quarter and how do you see in second half and maybe next year?

**Manoj Tulsian:** Arun, to be very honest, even I have been struggling to get a proper release of data in terms of the size of the market in this. We do not have a construct to really comment straight away on this query. So, what we are actually doing is, we are only looking inward, and we are only trying to benchmark our own numbers and see from where we can bring in growth for ourselves.

**Arun Agarwal:** Alright sir. Even within your own internal estimates, how do you see second half panning out vis-à-vis how second quarter, so do we expect we should be returning to growth in the plywood side in third quarter onwards, or it will take some more time for us to return to growth on a year-on-year basis?

**Manoj Tulsian:** No, on a year-on-year basis, I think, if Q3, we are able to reach very close to our last year number, we would be a happy lot because as I mentioned and you would have noticed that we have done a big time correction on the receivables front. And this is something which the market also is testing us. But we are very clear as an organization, including our sales and marketing team and everyone in the organization that this is the way the business would be run from here on. So, there is some amount of testing which has happened, but I am sure that things are going to bounce back because our relations with these dealers, goes back for 20, 30-years. So, we were doing business in a particular way which was acceptable. Now we have started doing business in a different way. And now this becomes the new acceptable norms. So, having said all these things and looking at the month of September and October, because even if you see in Q2, July was not so good. Things only picked up in the month of August and September. So, when we look at September and October, we are quite bullish that we would be very near to our last year H2 performance even this year. Of course, we will try for growth and all those things, but I am not promising any growth during this point of time in H2.

**Arun Agarwal:** Sure. Sir, in terms of cost, you pointed out there were some cost which probably would be a bit more structural in nature and some would be a bit more temporary. So looking at employee cost, last quarter we did around Rs. 45 crore, this time we are Rs. 35 crore, so, we have been between Rs. 38 to 40, 45 crore kind of number. Is there any further increase in employee cost expected or these are the normalized employee cost levels what we are running at right now?

**Manoj Tulsian:** These are the normalized costs, but I am sure that some of these things like the bonuses for the full year and other things, we are still awaiting to see how things pan out in Q3. And we have still not done anything on the increment side, and the incentives also is slightly under check. So some of these things which we want to take a call after Q3. So you might see some added cost, but I can only promise you one thing that all these costs will be good cost to have. Right? So even if it goes up, what I am promising is, we will be able to protect the EBITDA margin, that is what we are targeting. So, if this cost goes up, we will definitely look at other

avenues where to improve our efficiencies, and make sure that we are into double-digit EBITDA margin.

**Arun Agarwal:**

Because see, the reason I am asking you this question is because even with significant decline in revenues this quarter, we still were at around close to 11% sort of margins on a consolidated basis. And hopefully revenues improving from here on in Q3 and Q4, so, do we expect to reach somewhere maybe see another say 100 bps sort of increase because of operating leverage, and all those things, because I understand there would be some cost increases especially I think partly could be on the employee side, it could be on the ad spend as well. But I was just wondering if we can actually move towards 12% mark or within this year or no, I am talking about only H2?

**Manoj Tulsian:**

If you are talking only about H2, I think I would tend to agree with you. I am also looking at overall margin of double digit for the full year. I know it is still difficult. But we promised that in the last call, and the signs of improvement is definitely much better though we still are in the same pandemic thing, but I think people have taken this to their stride, they have understood that this is the way things have to be, we have to step out, we have to do everything, so businesses are bouncing back. So keeping all these things in mind, yes, only H2 margins should be better than the Q2 margin. And the full year margin can be somewhere around 10%. I mean, we might miss out slightly depending on the sale. But if the sales are good, then maybe we can cross 10% also for the full year.

**Arun Agarwal:**

And sir, coming back to on sales, can you just throw some light as to when we compare September and October sales for you all this year, how it has been vis-à-vis last time around, so maybe you can give a festive-to-festive comparison as well or maybe a month-to-month comparison as well?

**Manoj Tulsian:**

Arun, honestly, we are looking at things this time very differently, and that is what I have been advocating to my team also that forget about what the precedence was of last year like festive season and all those. We must also embrace the reality that during the first five months almost, laborers were without any job, whatever we may say, but the truth is that their earnings was almost zilch. And what we see as a change in the month of October also during festival times, like in West Bengal and many other parts of the country, the labor continues to work. And we feel that the same momentum will continue in the month of November also despite being a Diwali month. So, we are not working with these excuses now in our mind. The whole team understand that we have to deliver. We have lost quite a bit in Q1 this year, and we have to be on the recovery path. So, the whole team is buoyant, we are not trying to make any of these things as an excuse, we can always live with excuses, but we definitely feel that even if there would be some amount of the challenges, we will try and come out better in these months. Last year, if you want me to compare, I strongly am not doing that comparison, because we have totally changed the basis of sales from a period when our overdues used to be around 90-days, 120-days, 150-days versus when you strictly monitor your overdues, the quality of sales is significantly different, and it is much better. So, we as an organization, is very happy today. We know that whatever we are selling is quality sales. It gives us much better visibility as an organization, it helps us in planning better also, it helps us in doing post correction also to find out where are we going wrong, and what do we need to improve quickly on the thing.

**Arun Agarwal:**

And sir, lastly, could you throw some light on the Gabon operations? I know they have done pretty well this quarter.

**Manoj Tulsian:** Gabon has definitely done pretty well in Q2, but also to some extent I will bring it to the notice of everybody that there was some amount of trading sales in Q2 which will not repeat in Q3 and Q4, right. So, it is not the correct reflection of the full year performance, but that definitely supports us also because that is an added activity, which we get a limited period normally by the end of Q1 and Q2. So, we use that as an opportunity also to make some extra money. But it is doing a decent job. The issue is which I also maintained in the last call and I would still repeat the same thing that earlier we used to get a visibility let us say from Europe, three to four months of order visibility, which is now reduced to one to one and a half months. But having said that, we are getting repeated orders every month. So, keeping these things in mind plus India business slightly has improved now from end of Q2. So, we are expecting some amount of India business also to support us in Q3 and Q4. So looking at all these things and the H1 number, I think we are pretty confident that we will register a growth over last year full year. This is I think I can tell you at this point of time.

**Arun Agarwal:** How much we would be investing in CAPEX?

**Manoj Tulsian:** CAPEX, since we are looking at improving our efficiencies, we are looking at also improving on the quality front certain areas. So, we have a targeted CAPEX of anything around Rs. 8 to 8.5 crore in H2 and H1 was Rs. 8.3 crore. So total can be around anything between depending on the cash outflow and all those, but it will be around Rs. 16.5-17 crores.

**Arun Agarwal:** Regarding investments, we are investing in certain joint ventures in certain ventures, right or subsidiaries, we are picking up some stakes in...

**Mukesh Agarwal:** Yes, we have taken equity participation in two Bareilly based units. So probably in this half, another Rs. 1-1.25 crore for the balance amount of equity participation.

**Arun Agarwal:** Did we spend something in first half?

**Mukesh Agarwal:** No, no, we have not spent, it was till March but in this H1 there was no investment.

**Moderator:** Thank you. We have next question from the line of Venkat Samala from Tata Asset Management. Please go ahead.

**Venkat Samala:** So, thanks for the opportunity, just wanted to understand in the plywood industry, we have a fairly large unorganized sector as well. So, are you witnessing any market share gains as such?

**Manoj Tulsian:** This is guesswork. So, we did see some amount of pressure which has built up on the unorganized segment because of the pandemic, right. And, as I said that, the only way we can look at is to compete with ourselves and keep giving better performances, right. So, we have got mixed view from the market, we have seen some amount of pressure on the unorganized segment, which means there will be a shift to some extent and we have also seen that to some extent when we have gone into the rural penetration, right, that some of the dealers who we have appointed, were actually doing an organized product and they felt it is better to get related to one of the leading plywood manufacturers in the country. But at the same time, in the last one or two months, we also got feeling that some of them, who had almost shut their shop, are also again trying to come back also. So, once they are in business, of course, they will have to work out something for the survival, right.



But I think there would be some amount of consolidation, some amount of consolidation has already happened, and some more will also happen.

**Venkat Samala:** And you could help us with the mix of urban versus rural in the base and since you are now moving towards the rural, how has that changed in the last quarter?

**Manoj Tulsian:** Actually we started working on rural in Q2 only. So, I think it is again too early. We have just been able to convince dealers, we have been able to open new dealers there, we have done some initial placement. So that placement cannot be a right reflection of a breakup between urban and rural. So, I would say that this question will become much more relevant even for us and for everyone, all our investors in this going into the next year. So, give us some time, let it mature, because see, we are also testing water there. But I can only tell you that our team has done a phenomenal job of doing decent amount of legwork, with a lot of conviction to go to the rural market and quickly create a good dealer base. For us to see that how we help them grow, how we give these dealers a confidence that their relationship with Greenply is going to be profitable and long-term. So we are concentrating a lot on doing a hand holding with them. Give us some time, we will let you know, maybe starting next year once we do some significant inroads from the number perspective, but it is a good beginning, it is a good change. This is how we have to look at growth opportunities. We have to look at the distribution network expansion and we have to find outgrowth opportunities for ourselves.

**Venkat Samala:** How many distributors have you added in the rural?

**Manoj Tulsian:** Well, if you see around billables is close to around 125 to 150, though we have opened more numbers, but we almost billed around 125 to 150 dealers during this period, and that would be a good number.

**Venkat Samala:** If we were to calculate the total number of distributors in the rural segment, what would be that number?

**Manoj Tulsian:** Again, I am really sorry, Venkat, but the data in this business is not so organized, we are even struggling to do it, we have found some madness in the style of working, we have done some internal mapping which I would not like to share on the call all the details, but, I can only tell you that, yes, it is a significant achievement and we are not going to stop here, so, our team continues to work on this.

**Venkat Samala:** And dip in the realization is just a function of movement towards rural, is it, if you were to compare like-for-like, has there been some sort of downtrading witnessed as well is it?

**Manoj Tulsian:** No, the downtrading as I said on the call itself is more visible because my metro cities have still not reached to their momentum level. Also, to some extent, I mentioned in my last call also that we were heavily dependent on the metro sales; one, the metro was not doing as great as the tier-2 and tier-3 cities were doing; second, since we also took the journey of correcting the receivables. We also wanted some amount of pipeline inventory to get corrected during this period because the idea is that how we can actually improve the ROCE of each and every dealer of ours. So, we have to make the entire supply chain efficient. And keeping all these things in mind, I feel it is a temporary correction, which has happened. Things will start now moving up from Q3. This is not the end consumer downtrading.



**Moderator:** Thank you. The next question is from the line of Naitik Modi from OHM Portfolio. Please go ahead.

**Naitik Mody:** Could you please comment on the growth of plywood versus that of MDF?

**Mukesh Agarwal:** Actually, the base of MDF as compared to plywood is very small. So MDF market is 10% to 15% of the total furniture market, and whereas plywood is more than Rs. 19,000 crore. So in past, MDF has grown better than plywood; MDF has grown 15% to 20%, whereas plywood has not grown to that extent. So basically, it is not a comfortable thing to compare plywood and MDF.

**Naitik Mody:** What I am trying to understand is will the growth of MDF sort of restrict the growth of plywood?

**Manoj Tulsian:** See, we have to also see the overall opportunity in terms of the market size growth. The base for MDF as Mukesh ji said, is much lower compared to the base of plywood. What I look at it is that there will be a growth in the overall market and MDF will not be able to cater to that entire demand even if there is a demand for MDF. So, for us it is that we feel both the businesses is here to grow. Yes, if you ask me specifically my own view, I would say, because of the smaller base, MDF can grow faster than the plywood for sure.

**Moderator:** Thank you. We have next question from the line of Hrishikesh Bhagat from Kotak AMC. Please go ahead.

**Hrishikesh Bhagat:** Can you highlight what was the trading revenue in this quarter and compared to same quarter last year in Gabon?

**Mukesh Agarwal:** Hrishikesh, so trading revenue from Gabon was Rs. 10.76 crore in INR in Q2 FY'21 and Rs. 4.9 crore was in corresponding quarter last year.

**Hrishikesh Bhagat:** So my question related to this whole change in strategy on the working capital front, and as one of the comments you made earlier is that you have changed this way of doing the business effectively. And so just wanted to understand in that context, how are you addressing the dealer discontent because your dealers were used to the earlier way of doing, so any friction do you see in the distribution?

**Manoj Tulsian:** No, look, Hrishikesh, as I mentioned that when you look at our September performance or even October which I cannot discuss much, but when we look at those numbers like the month of September and October, despite doing all this correction, we have done a decent number and let us agree that we are still not out of the pandemic situation totally, right. See, what has happened is that earlier the dealers were also carrying extra amount of inventory because if they were carrying that inventory, they were not paying and they were keeping that inventory at our cost, let me be very honest on that. Now, if their inventory has got corrected, it does not affect them at all. So, we have allowed them to liquidate, we have allowed them to be more efficient, we are now looking at a lot of automation going forward that how we can really help dealers to better manage their inventory and improve their own ROI and ROCE. If we are able to do that, then you will see in the entire value chain everyone becomes more profitable. And that should be the intent. It may take some time, but for sure, on this journey, we are very clear that this is the way to help the entire value chain to be more profitable. And trust me the dealers, these are relationships which are for more than two decades, And we have got very positive response from the dealers, in fact, the dealer community is extremely



happy about this, They are more sure about certain things and they are very happy about the amount of discipline which we are trying to inculcate in the entire system at every level.

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

**Achal Lohade:** You said you are looking at second half flattish compared to last year. So I was just curious, given fourth quarter was pretty weak because of the lockdown, would you not be looking at better number, I mean, given September, October, you see things are picking up, why the kind of cautiousness on the guidance number part?

**Manoj Tulsian:** I can tell you one thing that internally there is no cautiousness and I also mentioned that, for sure, internally we are keeping a target which is higher than last year H2, but we have to also understand that we are not totally out of the woods, the problem of pandemic continues and we are not sure even how it is going to fair in the next five to six months. In terms of the guidance, yes, you may say that we are slightly conservative, but in Q3 also like maybe we are able to do around 85% of last year. And second, the fact which I mentioned is the correction in the way we are doing business. So, to some extent, a lot of skewness used to happen in the last month of every quarter. Those things have totally disappeared, we become much more discipline in those things. Again, one, how fast we get some answer to the vaccination things and other things, are there any slowdown which happens in Q3 and Q4 because a lot of this news of Europe and other things again started coming, temporary closures and all those. But keeping all those things in mind, you may say we are slightly conservative on what we are saying. Our endeavor should be to do better than H2 of last year.

**Achal Lohade:** With respect to mix, would you be able to give some color in terms of premium mix for the quarter and the corresponding quarter last year?

**Mukesh Agarwal:** Achal, in the volume terms, premium plywood contributed 60% and mid and low contributed 40% as compared to corresponding quarter it was 64% in the premium and 36% in the mid and low segment. Whereas, in the value terms, in this quarter, premium plywood contributed around 69% and mid and low contributed around 31%, whereas in the corresponding quarter against 69% it was 72% and against 31% in this quarter in the value term, it was 28%.

**Achal Lohade:** Given your focus on the rural part now, how do you see this mix over let us say next three years?

**Manoj Tulsian:** Well, we have to grow both on the urban and the rural, that is the only answer, right. So, on the rural side, I said that we are just testing the water at this point of time, we have done some initial placement, our initial thought process which came from our sales team and everybody that rural market is mainly the mid segment or the lower segment, but we want to defy that and we want to see that why would the premium not sell there. So, there are some changes, which will happen based on how the business is also taking place, what is the end chase which is happening from all these dealers counter. So, next six months to nine months would be a period for us also to establish what is the right mix. And let me also bring one fact on the table that we may say that we are Indians, but if you look at geographically the buying and even the spending habits of people is significantly different in different parts of the country. So, there is no single solution also which we can say that the rural market of the South can be same as the rural market of East. So, we



will have to try and establish that, and I am sure that it will take anything around two to three quarters minimum, if not more for us to understand what will sell there better, and how we can help some of our dealers also there to sell the premium products is something which internally we are working on to convince our own team first, and then to make sure that how we are able to help the dealers to also move slightly premium. So, let us see. We would not like to reduce our percentage of premium sales, that is our clear-cut target, that we would not love to do that. So, if my mid and lower segment grows, we would definitely love to see even the premium segment growing by equal number, if not more.

**Achal Lohade:** Just a clarification; if I look at the unorganized or branded ply, the margin the dealer earns from the unorganized actually is much more than what he earns from the branded product. How do we then convince the dealers to push our product at the cost of other unbranded?

**Sanidhya Mittal:** So basically, in our lower segment in Jansathi and Bharosa, we try to give the dealer exclusivity in its own area. So in a tier-3 city, we would give Bharosa to one person and Jansathi to one person. Since that brand is not available in any other counter, the dealer makes sure that he earns good margin, and he is happy with our product and he allows us to replace some of his local sales into our lower segment product.

**Manoj Tulsian:** Just to add to that, you have to understand that especially after this pandemic, there is a shift in the mindset of these rural dealers also because they faced significant amount of challenges from these unorganized market, because at times they are like very fly by night operators, the moment there is some difficult situation and you see that these people have vanished from the market, which creates a lot of disruption to the dealers also in terms of what to sell, how to sell where from to get the inventories. And looking at where we are today, for us, it is not like we are capturing 50%, 60%, 70% of the entire plywood market, we just need to make some inroads, and if we are able to do that also it gives us a decent amount of growth going forward, that is what we are targeting.

**Moderator:** Thank you. We have a next question from the line of Karan Bhatelia from Amsec. Please go ahead.

**Karan Bhatelia:** From Gabon side can I have a breakup of Rs. 57 crore as to how much Southeast Asia, Middle East, Europe and the India sale?

**Mukesh Agarwal:** So breakup is Europe was approx. 57% in Q2 FY'21, then external sales to India was 8%, Southeast Asia was approx. 32%, and other sales was 3%. This is from the veneer side. Trading what we discussed Rs. 10.8 crore was totally in Gabon, it is a local sale. And as compared to corresponding quarter, Europe was only 5%, India's external sale was 87%, Southeast Asia was 5%, and other sale was approx. 3%.

**Karan Bhatelia:** Sir, we send the consignment to US. So any update on that because that was looking to be a very big market if it materializes?

**Manoj Tulsian:** Unfortunately, what had happened, it has taken a lot of time for that consignment to reach. So it is now just landing in US in the next couple of days. But it has taken more than maybe three and a half, four months for this consignment to reach, a lot of issues which has also happened in the international area on the shipment side, because this humongous amount of change which has happened in the behavior of

every country in terms of their exports and imports. So, possibly these things led to abnormal delay. The consignment is just to reach in the next, as I said, two to three days. And we will come to know in a month's time, how they have liked the first consignment, whether they need to make any changes in that and what all, but we are very hopeful, let us see, once it reaches, maybe by next call, we will be in a better position to answer you on this. That is a big market and we are very bullish, if we are able to be successful in that market, we can get good volume traction from that market. And the reason for that, as I mentioned last time also is because they wanted to move away from China based supplies.

**Karan Bhatelia:** Sir, despite such a healthy top line growth, the EBITDA margin was not as per the growth in top line in Gabon. What factors could be attributed to that?

**Manoj Tulsian:** So, as I said that, the trading sales which has happened is at a much lower margin, that is not at the regular margin, right. That is mostly the reason.

**Mukesh Agarwal:** In this quarter, as we discussed, our revenue from trading was close to 19% and whereas balance was from the veneer section, and the margins in trading business is close to 18%, 19% whereas from the veneer at Gabon and Dubai level, it is close to 45%, 46%. So, the percentage of trading was higher in this quarter as compared to previous quarter and corresponding quarter.

**Moderator:** Thank you. We have next question from the line of Vijay Karpe, an investor. Please go ahead.

**Vijay Karpe:** I wanted to understand the sustainability of these trade receivables as it was mentioned that the channel inventory has also gone down. So, as the channel inventory increases, what will happen to the trade receivables?

**Manoj Tulsian:** See, you have to understand, Vijay, that it will not increase, okay. Because, when we become strict on certain discipline, we become strict and the dealer is well aware of what should be the pattern. So, they know that beyond a certain overdue limit, we will even stop billing to them, which is a norm which most of the companies follow. Having said that, now, they have also become conscious, they are not going to keep extra inventory, neither we have the interest to overload them with extra inventory, because that does not solve the purpose, that is not my true sales. And that never also gives us to understand that what is happening in the market, because if I am just shifting my inventory from my company warehouse to one of my dealer warehouses, I do not understand the construct of the market so well. So, I can only tell you that these are the changes which many companies have done in the past and now those things have become a history. The dealers understand that they will not overstock, neither our people will push them to take anything extra. And if the dealer is willing to invest more money, he gets some comfort, then we cannot help that beyond a point. That is very clear that they have to pay us on time.

**Vijay Karpe:** Are you seeing the working capital improvement across organized industry as well as the unorganized industry or is it only for Greenply?

**Manoj Tulsian:** Well, I think we are actually late. Some of the other companies were better disciplined. And we have now disciplined ourselves. We would not take away the credit from any other companies that they almost discipline themselves long back. And the unorganized segment, I do not think that there will be any change in the way they work, neither today, nor tomorrow, nor even after a decade. If you

categorize them in unorganized, they will continue to have the same level of behavior.

**Vijay Karpe:** My last question pertains to the target of becoming a debt-free company. What is the rationale of going debt-free because we are already making good ROCEs and our working average cost of capital will be far lower than what our ROCE is, we also get tax benefits as well on taking loans?

**Manoj Tulsian:** Look, that is why if you really look at, we said net debt today at Rs. 15 crore on the standalone operations. Rs. 73 crore of borrowings is there as of 30th of September, and we have a cash balance of around Rs. 55 to 60-odd crore. So, we totally take your point. And that is how we will also try to see that whatever is the arbitrage, if anything we will enjoy. And we will keep this money as cash-ready for any opportunities which we might look at in the future.

**Moderator:** Thank you. We have next question from the line of Venkat Samala from Tata Asset Management. Please go ahead.

**Venkat Samala:** Just wanted to take a more one- or two-year view, when things would normalize, what do you think the margins could look like versus 11%, 12% that we are doing now?

**Manoj Tulsian:** Venkat, actually, I would love to have more of investors and analysts like you because the last quarter, we did make some promise on two things; one, that by FY'23, we are taking all the efforts to improve the margin by around 400 basis points. So the job in the next two years is to take the margin to a decent level, that is one promise which we made. And the second promise, which we made in that call was that we are looking at the existing operations at consol level to be almost debt-free. Rs. 267 crore was our debt as of 31<sup>st</sup> March. And we have almost made our standalone entity at net debt level debt-free. So that is a very good beginning and achievement what we have got in the first six months of the year. And now we are pretty confident that the balance journey, what we need to travel, we will be able to achieve that also in the next 18 to 20-months. So these are the two things only where we spoke about in the last call and looks like that, we will surely make that happen.

**Venkat Samala:** We keep hearing from some of the dealers that that there is some price hike which is taken by the company. if you could throw some more clarity on that if at all any price hike was taken and in which products?

**Manoj Tulsian:** Actually, you guys are too smart, so that is a problem, we cannot hide anything from you people. The fact is that one more area where we have worked during this period is improving our MOP because there were different levels of discounts which were prevailing in different markets and that was also creating a challenge. So, we have in a way started correcting that. So, some of the markets have seen significant improvement, whereas in some markets, which was already disciplined, we have hardly taken any corrections. So, we are trying to bring a concept of a national pricing so that there is no material movement from one geography to another geography.

**Venkat Samala:** And on a blended basis, how many basis points would that add, I mean, this move towards standardization of pricing on a nationalized basis, so, if you were to do that, how much basis point of sales would that add, the discounting system becoming more stable?

**Manoj Tulsian:** Hello, this 400-basis points improvement which we are talking will happen with all these initiatives which you are taking, boss. If you start counting these margins separately and my commitment of another 400 basis points, then we will be in trouble. So...

**Venkat Samala:** No-no, I completely understand, but I am just trying to understand how much of that has already come in, so that is the basic point.

**Manoj Tulsian:** Look, that is what had slightly reflected in the Q2 numbers... slightly. Okay? And that is why I said that Q3 and Q4 combined margin, these are the things which are giving us confidence. Look, we may still fail. Okay? I am not saying that everything what we are saying is going to happen. Right? But the confidence is coming from this point that we have done certain level of corrections, and we are moving in the right direction. So, that was my assumption on one of the queries raised by one of the earlier... this that in H2 our margin will be better than Q2, and these are the things which adds up. And when you are taking efforts in every area, we are not leaving any area in the business untouched. Trust me that we are working in every area now... in certain area, maybe we just improved by 10 basis points, certain area 20 basis points, but all these things finally will add up to this 400 basis points, which we are talking in the next 18 to 24-months.

**Moderator:** Thank you. We have next question from the line of Arun Baid from BOB Capital. Please go ahead.

**Arun Baid:** Hi, Manoj ji. Just wanted to understand is this working capital adjustment which you spoken about and you delivered quite an extent this quarter, is this the new normal, in the sense, what should be our steady state debtor days which you would target? I'm talking about FY'22 because FY'21 the sales might be different, but on a steady state basis, what should be our debtor days and inventory days we should look at?

**Manoj Tulsian:** Hi, Arun. If you are asking for FY'22, I think we should be anything between 45 to 60 debtors days. And on the inventory side, we are right now at 61. If you see, even on inventory, we have done some significant correction in the last three months. Okay? And we have to see it for some more time that with the increase in sales and everything, what is the right level of inventory. We are still trying to work on that. Maybe after a couple of quarters, I will be able to tell you better about the inventory management cycle. But there is a lot of focus even in streamlining that. At the same time, I would also say that when we are getting into rural penetration, there is some amount of increase of inventories which will happen because there will be a greater number of warehouses which will come into play. Now, if we are able to manage our supply chain better and once, we understand those markets, we will be efficient in terms of what we need to manage per warehouse. But initially, we will have some iota of some excess inventory going into those warehouses also. So, again, in six months to nine months' time, we will be in a much better position ourselves to understand the trajectory of inventory management, and then I can answer you this question in a better way.

**Arun Baid:** But largely this collection of the debtor days part of it, which is market-driven is going to be over by FY'21?

**Manoj Tulsian:** Yes.

**Arun Baid:** So, on a normalized basis, assuming pandemic issues are behind us by Q4, then FY'22, should we be looking at significant growth because as FY'21 has been very

tough, because of a few reasons including pandemic, so FY'22, should we look at a base higher in FY'22 in the India business?

**Manoj Tulsian:**

Well, of course, we have to do that, otherwise, we will be kicked out.

**Arun Baid:**

So, just trying to reach you my thought, we did about Rs. 1,263, Rs. 1,265 crore in FY'20 from India plywood business. In FY'22, we should be higher than that from India?

**Manoj Tulsian:**

Well, for all regions, as you also rightly said, I am carrying the same idea, there is no difference in terms of thought and intelligence. Right? And we are putting that much of effort on the ground to make sure that my FY'22 number has to be better than my FY'20 number, it is a given statement. Right? Again, it turns out to be that we have to test the water that how successful we become. But on principle, there is absolutely no difference in your thought and my thought and even the thought for the organization. We have already discussed this internally also, and everyone today is mentally prepared that come what may with all this discipline in place where the dealers actually are today happier, do not take me wrong, even for one second that by doing all this correction, the dealer fraternity is not happy, they are actually happier. They get they get a lot more clarity. And with this, we are sure that the next year has to be better than FY'20 numbers, because we cannot miss out on those numbers for a larger period of time.

**Moderator:**

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

**Sanidhya Mittal:**

Thank you. I would like to thank you all for taking the time to participate in this call. We are very happy with the progress we are making across our operations towards making Greenply more resilient and prepared for the future. We look forward to speaking with you in the next concall post our Q3 FY'21 result announcement. Thank you.

**Mukesh Agarwal:**

Thank you

**Manoj Tulsian:**

Thank you.

**Moderator:**

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