



Greenply Industries

Q3 FY17 Earnings Conference Call January 24, 2017

- Moderator** Ladies and gentlemen, good day and welcome to the Greenply Industries Q3 FY'17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.
- Gavin Desa** Thank you, Zaid. Good day, everyone and thank you for joining us on Greenply Industries Q3&9MFY17 Earnings Call. We have with us today Mr. Shobhan Mittal - Joint Managing Director and CEO and Mr. V. Venkatramani - the CFO. Before we begin, I would like to state that some of the statements made in today's discussions maybe 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 commence proceedings of the call. Over to you, Shobhan.
- Shobhan Mittal** Thank you, Gavin. A very warm welcome to everyone present and thank you very much for joining us today to discuss Greenply's operating and financial performance for Q3FY17. 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.
- The demonetization drive, which we believe will be beneficial in the long term had severely impacted our business in the quarter under review. Our ply business degrew a little bit and was less impacted. But the MDF segment on the other hand witnessed considerable degrowth. The reason for the same, we have discussed in the past in various public forums, Venkat on a few calls as well. One of the primary reasons for this was that we had a tremendous focus with MDF business in the unorganized plywood segment and that segment got tremendously hit by the demonetization drive, which in turn impacted our business in the MDF.
- Demonetization resulted in real estate prices correcting and homebuyers deferring their purchases in anticipation of a further reduction in prices. In addition, the replacement market, which is cash based and have been aiding our growth in the recent quarters witnessed a slump as well. Lastly, price cuts taken by competition in MDF created additional pressures on volumes. We, however, believe these are temporary setbacks and in the upcoming quarters we will see an improvement. I must add however, that despite a lower topline, our gross margins have expanded, owing to a better product mix, improvement in yield and fall in raw material prices. Our MDF plant in Andhra Pradesh is progressing on schedule.



I now like to hand over the call to Venkat for the financial numbers. Thank you.

V. Venkatramani

Good afternoon, friends. I thank everybody for joining us to discuss the Q3 financial performance of Greenply. Our topline was lower by about 14% compared to the year-on-year quarter. Plywood was down by 9% including degrowth of 3% due to end of the excise exemption at the Rudrapur Plywood unit, while MDF revenues were impacted close to 26%. Growth has been largely impacted in this quarter due to demonetization and coupled with sustained price cuts by competition, as already mentioned by Shobhan.

Our gross margins improved by 410 basis points year-on-year to 47.8% due to better product mix, improvement yield and fall in raw material prices. Average realizations in plywood were lower by Rs. 9 from Rs. 242 to Rs. 233, reflecting the end of excise exemption at the Rudrapur Plywood unit.

MDF realizations were lower by about 3.7% from Rs. 26,334 to Rs. 25,348 per cubic meter over the previous year, primarily due to exports. Domestic realizations per cubic meter were Rs. 25,897 compared to Rs. 26,334 in the corresponding quarter. Exports for the quarter were 2,002 cubic meters at an average realization of Rs. 15,547. We continue to invest in brand building, which in turn enables us to maintain our strong market share. Our ad expenditure in the quarter was 3.1% compared to 2.8% year-on-year and 3.5% in the immediately preceding quarter.

Operating margins for the quarter were lower by 133 basis points at 14.3% reflecting the fall in topline. Capacity utilizations in quarter two were 95% for the plywood segment and 93% for the MDF segment compared to 97% in plywood and 111% in MDF in the year-on-year quarter.

Profit after tax was lower by 31.7% at Rs. 24 crore due to degrowth in topline, and increase in tax rate from 23.6% to 32.9%. In continuation of our efforts towards better working capital efficiency, working capital days have decreased by 9 days to 53 days compared to the year-on-year quarter, although there was an increase of one day compared to the immediately preceding quarter.

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

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Anshuman Atri from Haitong Securities. Please proceed.

Anshuman Atri

My question is regarding the MDF segment. So this price cut, was it taken on a pan-India basis or you saw more regions seeking certain price cuts, and whether this lower performance was similar across regions, or certain regions were less impacted by demonetization? And finally, how do you see prices recovering from the next quarter onwards?

Shobhan Mittal

Actually when we mentioned price cuts, this was on account of the competition. And these price cuts were actually taken before the demonetization had happened. So, even if you look at our call from last quarter, we had spoken about the price cuts taken by the competition whereas we had decided not to undertake any price cuts. And contradictory to this, we have actually already seen intimations by the competition primarily Action, which is our main competitor in MDF. They have announced a rollback of the price cuts already on certain thicknesses, which will get implemented from next month onwards.

- Anshuman Atri** And in terms of demand where some certain regions are doing better, say North versus South?
- Shobhan Mittal** Obviously, the challenge is across the board, it is not that any particular region is doing better. Also like our focus has always been the North of India. And for both, us and Action because of our geographical proximity to the region.
- Anshuman Atri** Second question is regarding raw material prices. Sir, how is the price index moving right now? And what kind of benefit can be sustained in Q4, or you are seeing hardening of raw material prices?
- V. Venkatramani** So, raw material prices have been softening over the past one year, and that has reflected in our gross margins where we have seen improvement of about 400 basis points. Although it is not solely a function of reduction in raw material prices, this also reflects improvement in wastage levels and increase in yields from raw materials. But yes, we could have seen volatility in raw material prices depending upon availability of labor and also availability of liquidity in the economy because when you are faced with liquidity crisis, farmers being unable to pay labourers on time. So, there is reduced felling of trees, which consequently results in lower raw material availability. I would not rule out any increase in raw material prices for the next couple of quarters till we see some stability coming back into the economy.
- Anshuman Atri** There is one last question on the MDF, can you throw some light on import trends after and before demonetization?
- Shobhan Mittal** Not particularly.
- V. Venkatramani** We have not seen any particular change in trends on imports of MDF post demonetization, but it could have some impact in the longer term. With reduced availability of cash in the economy, we could see some impacts on imports, I would say over the next one year.
- Moderator** Thank you. The next question is from Nehal Shah from ICICI Securities. Please proceed.
- Nehal Shah** Sir, couple of things. I think plywood division obviously has done far better than what we were estimating. Can you give some breakup between the commercial grade and the premium products?
- V. Venkatramani** I would not say that there has been any major difference in the composition of our sales. So, I would say plywood segment has done better, in the sense that de-growth has been lower in this segment. And also the efforts that we have put in for improvement by way of reduction in wastage and improvement in raw material yield have provided tangible results in this quarter.
- Nehal Shah** So, you are saying premium has done better than Ecotec?
- V. Venkatramani** No, I am not saying that. I am saying that as far as the sales composition is concerned, it is more or less similar to the last few quarters. We have not seen any major trend either way. But what I mentioned was that we have been able to reduce consumption of raw materials and also raw material prices have been softening over the past one year. Both these factors have reflected in improvement on the plywood segment.
- Nehal Shah** Yes. So, that is reflecting very good margins on the plywood segment despite drop in volumes?

- V. Venkatramani** Sure.
- Nehal Shah** Right? So, that's commendable job. Basically can we expect that to sustain may not be for next couple of quarters, but possibly down the line when things would start improving as far as plywood visibility is concerned?
- V. Venkatramani** It is very difficult to give you a reply now because I think that we could see some volatility in raw material prices because of availability of labour and also due to impending elections in UP and Uttarakhand. So, I would not like to offer any comments on whether margins are sustainable. I think the 12.5% margin that we have had in this quarter, may not be sustainable in the longer term. So, my guidance would be more that we might be able to sustain operating margins of around 11.5% in the plywood segment.
- Nehal Shah** That is really good. And sir what about the tax rate, which is coming at 33% for the quarter?
- V. Venkatramani** Okay. So, part of it is because we had poor performance on the MDF side. The tax exemptions which are available for MDF, we could not utilize those benefits. And the second is, we had some adjustments towards income tax for previous years, which have also contributed to a higher tax rate in this quarter.
- Nehal Shah** And what would be the sustainable tax rate for the year?
- V. Venkatramani** I think, it should be around 28-28.5%.
- Nehal Shah** 28%, 28.5% tax rate. Right.
- V. Venkatramani** So, that is what we have had for the nine months.
- Nehal Shah** Okay, fair. And sir, my last thing on MDF, has the recovery already started, oppose the debacle what we saw in the last quarter or are we seeing any green shoots?
- V. Venkatramani** We have not even completed one month after December quarter. So, I will put it like this that things are better than what they were during December. But we will have to see how the entire quarter pans out before I can say that we are seeing definite signs of improvement. But January per se has been much better compared to December.
- Moderator** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please proceed.
- Gunjan Prithyani** Just couple of questions. Firstly on the demand, would you also give some sense on how has November and December been different? If you can share any broad range of numbers, was there any improvement seen in December versus November? And as regards the plywood and the MDF differential in the performance, is it that plywood has a huge unorganized segment? And lots of these unorganized players were of course hit by the cash crunch. And hence you saw that you guys actually were able to perform much better than what the industry growth rate would have been. So, there is of course some shift that you would have seen, is that assessment correct?
- V. Venkatramani** I think your assessment is correct as far as the plywood segment is concerned. So, definitely the impact on the unorganized segment was much more severe than the organized segment.



- Gunjan Prithyani** But would you be able to share what in broad range industry degrowth would have been?
- V. Venkatramani** No, I would not be able to give you any realistic figures for degrowth across the industry because you don't get reliable figures. Since 75% of the plywood segment is unorganized, we do not get any reliable data. But the industry was impacted to a significant extent, there is no doubt about that.
- Gunjan Prithyani** So, would you have seen any massive shift from unorganized to organized?
- V. Venkatramani** I think it is too early because the unorganized has still not been able to take any definite steps on how they are going to move ahead. We have not seen any announcements from their side, they seem to be convinced on one point that they have to improve their invoicing levels, but they have not yet announced any definite levels so far.
- Gunjan Prithyani** But there were a lot of shutdowns which were seen especially because of the liquidity crunch that followed post demonetization. Have you seen those facilities coming back on stream or is there still a meaningful number of players, who aren't operating normally yet?
- V. Venkatramani** I would say, yes. The impact is still there on a significant segment of the industry. So, many of them, which had closed down all were operating at significantly lower levels are still not back to normal. But I think the availability of cash is improving across the economy, although it may not be what it was prior to demonetization. But the cash crunch, I would say is not the same in January as it was in December.
- Gunjan Prithyani** Okay. So, what I am just generally trying to understand is, do you see these guys coming, some of these guys being economically unviable, if let us say, they have to really invoice a majority of their business?
- V. Venkatramani** Yes, I think so. Definitely significant portion of them would become unviable.
- Gunjan Prithyani** Anything on the monthly trends November-December, Jan, if you can share?
- V. Venkatramani** Okay. So, like we had a degrowth of about 14% across the quarter, so December was the worst affected. So if you look at December separately, I would say possibly it was upwards of 25%.
- Gunjan Prithyani** December was down 25%. And November would be what?
- V. Venkatramani** October and November I think were less than 10%.
- Gunjan Prithyani** And Jan, you did mention that you have seen improvement from December level, but is it still high double-digit de-growth?
- V. Venkatramani** No, I wouldn't say its high double-digit de-growth. I think if you compare it to last January, we would be on track. So, I am not seeing any significant de-growth in this quarter. It could either be almost similar or maybe a 1% or 2% de-growth, but I don't see any major de-growth in this quarter.
- Gunjan Prithyani** Okay. And sir, the raw material softening that you are talking about is the face veneer, right?

- V. Venkatramani** I wouldn't say because face veneer is a very small component of the total raw material cost. It is primarily the local timber and the co-veneer costs, which have been reducing over the past one year.
- Gunjan Prithyani** But specific to this quarter, which raw material saw the significant decline?
- V. Venkatramani** See, the prices of the quarter are not reflected in the same quarter because we follow a weighted average system of consumption in raw materials. So, the prices which had softened possibly in the June quarter are now getting reflected in this current quarter.
- Gunjan Prithyani** They pertain to the local timber prices?
- V. Venkatramani** Yes, primarily to the local timber.
- Gunjan Prithyani** Sir, last question on the MDF business. Now, I would have thought that this is a business which is eventually to organized players, to basically commercial real estate. So, it seems very surprising that the hit on this business is very high and you're still not seeing any improvement here.
- V. Venkatramani** I said, as far as improvement is concerned. I said there would not be any degrowth in the current quarter. So, we are seeing improvement compared to December. But as far as your question regarding de-growth in December was concerned, I think it is also a question of the fact that we have been fighting with competitors, who have reduced their prices to a significant extent. Like we had mentioned in the earlier call that the closest competitor had reduced prices by about 4.5% in July. So, that definitely had an impact on our volumes. And secondly, a large segment of our MDF is competing with the cheap plywood segment which was impacted to a significant extent in that quarter. So that possibly also had an impact on our MDF volumes, but I think it was a one-off case. We may not grow significantly, but I do not think we will see de-growth in this quarter.
- Moderator** Thank you. Our next question is from the line of Jignesh Kamani from GMO. Please proceed.
- Jignesh Kamani** Sir just want to understand about unorganized segment in between making sure this Haryana and other unorganized based association decided to take a price hike of anywhere between 5%-10% in the plywood. Any idea whether this price hike was implemented or not, and the gap between ours and the unorganized has reduced now, or is still persist?
- V. Venkatramani** Yes. So, what I have been hearing is that part of the industry have raised prices to the extent of about 4% to 5%, but they are still not able to recover costs, which have gone up for them due to demonetization. So, possibly we could see another round of increase in prices by the unorganized segment. I do not know whether that will happen in the March quarter or the June quarter. But I think they would have to do another round of price increases.
- Jignesh Kamani** So, they have already taken 4% to 5% price hike?
- V. Venkatramani** Part of them, not the entire industry.
- Jignesh Kamani** And have we taken any price hike?

- V. Venkatramani** We have taken a price hike of 2%, which will not be fully implemented in this quarter. So, I think in this quarter we will get a benefit of 1%, and possibly the full hike will be reflected in the next quarter.
- Jignesh Kamani** And it is absorbed in the market or how is the feedback?
- V. Venkatramani** See, there is always resistance, when you have price increases in the plywood industry or in any industry, but we expect it to be absorbed during the current and the next quarter.
- Jignesh Kamani** And how is the scenario in the timber, what is the face veneer availability from Myanmar and other part of country?
- V. Venkatramani** So as far as Myanmar is concerned, they had imposed one year ban on felling of tress, which is expected to come up for review in March or April. And then they will be announcing the next policy. So, at the moment, there is a lot of uncertainty regarding Myanmar, and that's why we are setting up a new face veneer unit in Gabon, which should probably start the operations in July-August this year.
- Jignesh Kamani** Sir, from past 6-7 months, there is no update from the Myanmar, whether they will continue for another year?
- V. Venkatramani** No. There is no update from Myanmar. I think they will be announcing an update only in March or April.
- Jignesh Kamani** And we have stock till September I suppose?
- V. Venkatramani** We should have stocks still October, November.
- Moderator** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please proceed.
- Achal Lohade** Just an extension to what was asked about the raw material availability. In case, if Myanmar does not announce anything, how would that work in terms of the raw material?
- V. Venkatramani** So, like if Myanmar decides to extend the ban on felling of trees for one year or future indefinite period. So, I think our plant in Gabon will be operational in July-August this year. So, we would not face any difficulties in raw material procurement.
- Achal Lohade** But how do you see the impact for the industry? I mean, how much is the industry sourcing from Myanmar at the moment?
- V. Venkatramani** It's very difficult. I would say a significant part of the industry uses raw material procured from Myanmar, Indonesia and Laos. So, till we see the impact for a couple of quarters, it will be very difficult to estimate the impact on the entire industry.
- Achal Lohade** Understood. And any kind of expectation you could talk about for FY'18 in terms of both the segments broadly in terms of the volume expectation?
- V. Venkatramani** I wouldn't like to give any guidance at all as far as FY'18 is concerned. I think FY'17 growth will be muted much lower than the 6% to 8% that we had guided for at the beginning of the year. So, possibly growth will be stagnant for FY'17. But regarding

FY'18, I will probably be in a better position to give you numbers at the end of the current quarter.

- Achal Lohade** Sure. And just the last question in terms of the MDF, if you could just repeat about the domestic as well as export how in terms of the volume growth?
- V. Venkatramani** So, volumes were impacted both in domestic and exports in this quarter. So, out of our total sales of 37,764 cubic meters, we sold 35,761 cubic meters in the domestic markets and 2,003 cubic meters in the export market.
- Achal Lohade** Okay. And what is the volume decline in both the segments?
- V. Venkatramani** So, we didn't have any exports in the year-on-year quarter because we started exports only during the current calendar year. So, there is no comparison. And if you look at domestic volumes, we had sales of almost 49,000 cubic meters last year and this year we had about 35,760 cubic meters.
- Achal Lohade** Understood. And in terms of the realization, how has been the export realization and how do you see the export performance going forward?
- V. Venkatramani** Export realizations per quarter were about Rs.15,547. And I think we do not see any major improvement in export realizations for FY'18. However we would not be exporting a significant quantum of our production till the new plant at Andhra starts production.
- Achal Lohade** Understood. And when you say that we probably may not see significant decline in the current quarter as against 25%-26% in December quarter. Does it mean like as you said the decline in third quarter was also function of the unorganized plywood where it is competing against, also saw significant pressures. Are you seeing improvement on the ground even for the low priced plywood or lower end of plywood segment?
- V. Venkatramani** See, we are not present in the low-end plywood segment, so I wouldn't know how that segment is faring during the current quarter. But I will definitely check with our team and then come back to you on that. Regarding MDF, we have been pushing the sales team to expand the network also, and I think they will be continuing with that exercise over the next couple of years till the new plant starts production, because our capacity is going up threefold, so they will have to expand the distribution network significantly.
- Moderator** Thank you. The next question is from Prashant Kutty from Sundaram Mutual Fund. Please proceed.
- Prashant Kutty** Apologies for actually trying to correlate this to, let's say, other building product industry. But just if you look at the performance of the other industries, the same in the building product side of it, while even they also initially spoke about very bad kind of a quarter going to be lined up whereas when the actual numbers really came up, they still managed to probably see a positive sales growth or maybe just a positive volume growth, even maybe like a flattish number. Again, sir, if we look at probably something like in plywood category, obviously that seems to have seen a very sharp decline over here. I do understand that the dynamics are very different in terms of how it works. But just want to understand over here, doesn't institutional business help us pick up during the demonetization time or if you could just help me understand this math over here as to why would there be such a wide variation or is there a case that in case or maybe, let's say, other categories where they

would have seen a very sharp pent-up demand coming in this quarter. Could we see that coming in the coming quarters for us?

V. Venkatramani

So, I will put it like this. We are different from other building material products like tiles and sanitary ware. These products are used during the construction cycle. Our products come into usage at a much later stage only after the residences are occupied by the end consumers. So, demand for furniture is generated only when the end consumer occupies the resident space. So, in that aspect, we are different from other building material products. Regarding plywood, like I mentioned, we did not have a very steep degrowth on the plywood side. We had a degrowth of about 6.75% in volume terms on the plywood segment. And I think that was also due to the fact that we were stringent on credit terms, we did not want to expand our risk by increasing the credit period, which would lead to credit defaults at a later stage. So that was also partly why we saw even a small de-growth in plywood, if we had been more liberal in our credit terms, we could possibly have even had a small growth in the plywood segment. On the MDF side like Shobhan mentioned, a large part of our sales especially in Northern India is competing with the cheap plywood segment. And that segment was possibly in a state of shock, which is reflected in the MDF numbers for the quarter, we had a volume degrowth of about 23%. But I would say there is possibly a one-off issue, we don't anticipate any de-growth in this quarter.

Prashant Kutty

Just an extension to this, do you mean to say that probably the industry kind of went for probably liberal credit terms over here against, let's say, versus a Greenply?

V. Venkatramani

No, I wouldn't like to speculate on what happened across the industry because each industry, each product has its own credit terms and customer base. So, I wouldn't like to comment on what has happened across the industry.

Prashant Kutty

But, sir at Greenply, we have not really seen any kind of freebies being given.

V. Venkatramani

No. In fact if we look, we have reduced our debtors by 4 days during the current quarter compared to the immediately preceding quarter.

Prashant Kutty

Sure. Again actually going back to this point, so in terms of MDF part of the business, while you said there obviously is a lot of unorganized part, the plywood part which actually gets impacted over there. Shouldn't that ideally be beneficial from MDF's perspective, while I would like to understand, I will probably take this quarter as a one-off. But let's say going forward, does not really help a very significant improvement in your MDF business purely because the unorganized plywood side part of it would affect

V. Venkatramani

See, I think for a short time everybody will be impacted, whether it's Greenply or the unorganized segment because there is a scarcity of buyers across the industry. So, I think the benefits will come for the organized players when buyers return to the market. And as far as the immediate future is concerned, I think growth will be challenging for the current quarter as well as probably another couple of quarters in the next financial year. Before we see buyers returning back to the market, buyers taking purchase decisions and now that prices have also started reducing in the real estate, what happens is buyers expect that there will be further price reductions and they defer their purchases, which would also have impact on demand for our products.

Prashant Kutty

This is something, which is more than just the currency issue over here.

V. Venkatramani

Yes, definitely.

- Prashant Kutty** So, there is more of a demand issue actually which is there?
- V. Venkatramani** Definitely. I think the real estate is also a significant contributor to that.
- Prashant Kutty** Could our growth rates been, I am sure we would be having any kind of institutional sales or project sales, which is there which should be in our favour
- V. Venkatramani** So, if you look at our plywood segment, our direct institutional sales would be about 10%.
- Prashant Kutty** Okay, sure. That will be very less.
- V. Venkatramani** And then there would also be some institutional sales at the dealers level. So possibly about 20% institutional sales directly as well as indirectly.
- Prashant Kutty** That would have probably done better?
- V. Venkatramani** I don't know. I think in case of projects, which were already like work in progress, so they did not possibly defer their orders or stop construction. But in terms of fresh projects, there was definitely a strong impact.
- Prashant Kutty** Sure. And incrementally when I am talking about, let's say, you coming up with a huge capacity coming up on the MDF side of it, even the competition is also coming up with the huge capacity on that side. Would it actually be sometime away in terms of the actual ramp up happening over here because of the demon part of it?
- V. Venkatramani** I don't think so. I think demonetization will possibly have some impact in the current quarter and possibly at the most couple of more quarters. But definitely in terms of fresh capacities, which are coming up in MDF. So, we don't expect to have full capacity utilization in the first or second year of operations. So to overcome that, we are looking at exporting a significant volume of our production. So, possibly targeting exports of about 30% to 40% of the production from the new plant.
- Moderator** Thank you. Next question is from Akshat Gandhi from Kotak Mutual Fund. Please proceed.
- Akshat Gandhi** Wanted to check, you commented that the local timber prices have been falling in the inventory, probably of the June month is getting reflected in the current quarter, is that right?
- V. Venkatramani** June and also a part of I would say the second quarter also, July-August also.
- Akshat Gandhi** So if I could understand, what kind of inventory days we run on the local timber side?
- V. Venkatramani** So, it would be different at different points of time because availability of raw material is seasonal. So, normally farmers cut trees whenever they are harvesting their other cash crop. So, like we had anticipated that normally availability of raw material would be lower in December and Jan. So, we had built up sufficient stocks of inventory during the June to September quarter.
- Akshat Gandhi** Okay, alright. Also I had some questions on the MDF side, if you could comment on a like-to-like MDF being imported in India, what would be the landed price and what would be the selling price at the retail level?

- V. Venkatramani** So, the selling price would be about 10% to 15% lower than us.
- Akshat Gandhi** And let's say what would be the difference between the selling price and the landed price?
- V. Venkatramani** See, it's very difficult to comment because we don't know what kind of margin the trader is keeping for himself, how he is covering his currency risk. So, I wouldn't really be able to give you an idea on the landed price at this level. But at the dealer level, imports are cheaper by about 12% to 15%.
- Akshat Gandhi** And when you said selling prices 10% to 15% cheaper in North and South both this difference would be the same, or South would have a lower difference?
- V. Venkatramani** There are no imports coming into the Northern because just as we face challenge in shipping MDF from say our plant in Rudrapur to the Southern states or exports via Mumbai port, similarly imports also face a challenge in terms of shipping the material from the port areas to the center of the country. So, imports are competitive only around the port areas, whether it is the Southern parts or the Western parts.
- Akshat Gandhi** And also one last question on the working capital side if I see, what we have seen versus the March 31st inventory days, that is 31 it has increased to 36 days, while the creditors are also increasing. So, is there any increase in inventory because nine months tend to show a higher inventory?
- V. Venkatramani** Like I mentioned, we had taken a conscious decision to increase the inventory of raw materials to protect us from volatility in prices, but we did not increase the inventories of finished goods.
- Akshat Gandhi** And the creditor days increase, is it in anyway impacting a cost increase also because creditor days are also slowly inching up versus 50 to 55, now 57?
- V. Venkatramani** I think I would say a shift in buying pattern from imports to more local. Earlier we also used to import core veneers from Vietnam. But now we are relying entirely on the domestic market for our core veneers.
- Akshat Gandhi** So, that could also be reflecting in the creditor days. But there has been no major movement. Even if you look at the previous quarter, we had creditor days of 58 days which has now moved to 57 days.
- Moderator** Our next question is from the line of Anurag Mantri from Jefferies. Please proceed.
- Anurag Mantri** So, I am just looking for the breakup of the volume decline numbers by month. So, basically how much was volume decline in November and December for the two segments and overall?
- V. Venkatramani** So if you look at the different segments, so I would say there was no decline or insignificant decline during October and November in the plywood segment. We actually had growth of about 2% in October and degrowth of about 5% in November. So, the major decline came about in December. And if you look at the plywood segment, overall there was not a significant degrowth, volume de-growth was only about 6.75% in this quarter. Coming to MDF, the degrowth was significant even in October and November, although not comparable with December. So, we had about 14% de-growth in November. And a much higher number, I don't recall the exact number for December, but the volume decline for December was much higher.

- Anurag Mantri** Right, got it. And any trends on pricing specifically because of demonetization that you would comment on?
- V. Venkatramani** So, like I mentioned, we have taken a price increase of 2% in the plywood segment, which I expect to be implemented over this quarter and the next quarter. So, possibly we will get 50% of the benefit in this quarter and entire benefit in the next quarter. Regarding MDF, we are maintaining the prices, although we have introduced some schemes, which will reduce procurement costs for the dealer in order to make our products competitive. So, those schemes have had an impact of about 1.65% in this quarter.
- Moderator** Thank you. The next question is from the line of Ankit Jain from Mirae Asset. Please proceed.
- Ankit Jain** Sir, couple of questions. One, I think Mr. Mittal mentioned earlier in the call about competition rolling back the price cuts in certain segment. So, if you can quantify the amount of price cut being rolled back and are we also planning to take similar sort of a price hike, I mean, in case of MDF?
- Shobhan Mittal** No, actually what I had mentioned was a few months back Action had reduced pricing across all its products by 5% across India. So, the information that we have now is that on certain thicknesses, which is a thin panel category up to 5.5 millimeter thickness, they have decided to increase the prices back by 3%. So, technically what had reduced by 5% in those product categories are being rolled backed by 3%. So, net effect would still continue to be a 2% reduction.
- Ankit Jain** But like when we are followed in case of like price cut, we also have to take the price cut at that point of a time.
- V. Venkatramani** So, like I mentioned Ankit, we did not take any price cuts. We just introduced a few schemes, which would reduce the procurement cost for the dealer based on his volumes. But we did not take any direct price cuts.
- Ankit Jain** Okay. So, that realization decline is largely on account of exports, right?
- V. Venkatramani** It is partly due to exports and partly on account of the schemes, which we had given to the dealers.
- Ankit Jain** Another thing I mean again coming back on to the plywood margins, the kind of improvement we have seen this quarter despite of lower volume. And despite of increase in crude oil input we have seen sequentially. So, what exactly has gone into this kind of a drastic margin improvement?
- V. Venkatramani** See, crude does not have any major impact on the plywood side because consumption of chemicals is only about 20% of the total raw material cost. So, crude is not a significant contributor in terms of plywood raw material cost. The price of core timber has been reducing over the past one year. Although, since we follow the weighted average system of raw material consumption, the impact takes some time to reflect in the numbers.
- Ankit Jain** And you also mentioned that prices of local timber are also falling, is it something to do with the demonetization like procurement side and all might have got impacted that is why prices are coming down?
- V. Venkatramani** It was not actually demonetization that prices were coming down because the demonetization happened only in the month of November and prices had started

reducing from May itself. So, it was more a question of demand, which was influencing raw material prices.

- Ankit Jain** Coming on to like the segment, capital employed in case of MDF has gone up by Rs.65 crore, so this pertains to new project?
- Shobhan Mittal** That is correct.
- Ankit Jain** So, this is mainly to the account of the land cost, which we have purchased?
- V. Venkatramani** No, it's on account of land cost as well as advances, which we have made to our vendors. So, I think in the presentation, I have also given the ROC numbers both for the existing business as well as the total including the investments in the new plants. So if you look at our total capital employed, MDF includes almost Rs. 237 crore of capital employed for the new plant.
- Ankit Jain** Another thing if I look into our interest cost, which has gone down 50% sequentially despite absolute debt which has in fact gone up. So, has the interest rates at absolute level come down for us as a percentage?
- V. Venkatramani** Interest rates are coming down, but that's not the main reason. The main reason is that we have been parking our internal accruals in the cash credit accounts. So, there was very less utilization of our working capital limits, which in turn led to lower interest cost. So, as we take out funds from our cash credit accounts and start using it for the MDF plants we will again see an increase in interest cost.
- Ankit Jain** And this improvement in working capital, which we have seen is largely sustainable, right?
- V. Venkatramani** Yes, it's largely sustainable.
- Ankit Jain** And last thing, you've also mentioned like setting a plant for decorative plywood and veneer. So, what exactly is that? I mean that is in Gujarat, I think there has been an exchange filing, and what exactly will be the CAPEX and plan out there?
- V. Venkatramani** We do manufacture decorative veneers even today at the plywood unit in Rudrapur. So, what happens is because of the transportation costs, we are not very competitive Pan India. Hence, we are setting up this new unit in Gujarat, which will take care of our markets in Southern and Western India, that's the primary reason. As far as the project cost is concerned, it will be approximately about Rs. 42 crore, including interest during construction period and also margin money for working capital. So, the pure project cost will be around Rs. 35 crore and overall all-inclusive should be about Rs. 42 crore.
- Ankit Jain** Commissioning timeline ?
- V. Venkatramani** Commissioning, we'll be commissioning it sometime in July to September quarter next year.
- Ankit Jain** Okay. So, six-month down the line roughly, next year?
- V. Venkatramani** Yes, say about 6 to 9 months.
- Moderator** Thank you. Next question is from the line of Baidik Sarkar from Unifi Capital. Please proceed.

- Baidik Sarkar** This is a question for Shobhan. Shobhan, given the increasing competitive intensity, Century's capacity also coming up anytime now. Do you think MDF realizations might be subject to sustain pressure in the periods to come?
- Shobhan Mittal** Well, we definitely don't foresee an increase happening any time in the near future because there is substantial capacity coming online starting in the next few months itself. The current capacities that we know of that will become live pretty soon is number one, the Century Plywood, then is Action coming up with the new capacity and then thirdly of course is us. We have always maintained that in the North of India we definitely foresee, that will be a challenge because the competitions were intensified from all these capacities as well as the existing capacities are concentrated in the North of India. In the South of India, of course, we will be a little more insulated as being the only substantial producer not counting Rushil Decor of course, they are also in the South of India. In the North of India, we don't foresee any chances of increase in prices and to a certain extent, there may be chances of reduction as well. However, today we are already selling our 30% of our capacity from the Uttaranchal plant to the South of India. So, by being able to transfer that to the North of India is a saving, the saving that we would have on account of transportation can be passed on and yet realizations and margins can be maintained.
- Baidik Sarkar** So, FY'18 from MDF perspective would be at the max a flat to a slight de-growth here, right?
- Shobhan Mittal** Yes, I would say flat to slightly 1% or 2%, 3% increase.
- Baidik Sarkar** Right. And Mr. Venkat, I am sorry if I missed this in your comments earlier. What was the quantum you exported this quarter of MDF to the Middle East? And what was the contribution loss on top of that?
- V. Venkatramani** Excuse me, our exports volume of MDF exported in this quarter was 2,002 cubic meters.
- Baidik Sarkar** And what was the losses we booked on that?
- V. Venkatramani** We don't book any losses, like we cover our variable costs on exports. We don't cover the fixed costs.
- Baidik Sarkar** Okay. So, over the coming quarters, do you think this run rate of about 2,000 per quarter, is that a fair run rate to assume?
- V. Venkatramani** No. I think we will be exporting somewhere around 4,000 to 6,000 cubic meters on an average per quarter.
- Baidik Sarkar** And I understand you repeated this multiple times, but just as a sake of closure from my end. On the plywood side of things, you said intended price hikes for FY'18 would be over 2%, is that right?
- V. Venkatramani** That's correct.
- Baidik Sarkar** And about 1% of that would come in Q4?
- V. Venkatramani** The current quarter.
- Baidik Sarkar** And in terms of volumes from YoY perspective that is Q4 of last year vis-à-vis Q4 of this year, our volumes you think might be flat?

- V. Venkatramani** Might be flat or slightly lower because we had a very good Q4 in plywood last year. So, I think it will be tough to go over that quarter. So, I think we will probably be stagnant compared to last year.
- Baidik Sarkar** So I am trying to understand, we witnessed very healthy gross margin expansion over the last couple of quarters. Do you think some of that might be under pressure, we might have to give up some of those gross margin gains in terms of pricing as we roll into the next year on the plywood side of things?
- V. Venkatramani** Yes, I think that's a possibility. It could also be influenced by the upcoming elections in the states of UP and Uttarakhand from where we procure a majority of domestic wood for plywood. Because with announcement of elections, a significant portion of the labor would join election duties for political parties. And so, farmers could be faced with a shortage of labor for cutting trees, which could have an influence on prices. So, I think as far as the current quarter is concerned, there could be some volatility in raw material prices.
- Baidik Sarkar** Okay. So, do we have any levers at all for an earnings accretive year in FY'18 from your plywood segment? Are there any levers available to us apart from the 1% price hike?
- V. Venkatramani** I think the significant lever that would be available is GST, as far as the plywood segment is concerned. So, GST is expected to be implemented from 1st July, which would possibly have a negative impact as far as the first quarter is concerned. But yes, once GST is implemented and the teething problems are sorted out, it is expected to have a strong beneficial impact for all branded plywood manufacturers.
- Baidik Sarkar** So, did you plan Q1 it will have a teething impact on our operations as well, on Greenply's volumes as well?
- V. Venkatramani** Yes, I think it will be across the industry because everybody will be getting used to a new system of taxes, which will be totally online and the system might not be full proof in the beginning as we have seen with other taxes previously. And this is possibly the first time that a new tax is going to be online from day one, everything from uploading of returns to payments, calculation of taxes, everything is going to be online, which is first for the country. So, definitely we are expecting some teething problems across industries.
- Baidik Sarkar** So, after Q1, so what kind of volume increase do you think we can enjoy?
- V. Venkatramani** It will happen over a period of time. I do not think we will see double digit volume expansion happening immediately. But yes, definitely, we see a significant shift happening from unorganized to organized over the next two to three years.
- Baidik Sarkar** And are we still on track for an October 2018 commencement of our new MDF plant?
- V. Venkatramani** Definitely.
- Moderator** Thank you. Next question is from Vijay Karpe from Dalmia Securities. Please proceed.
- Vijay Karpe** Could you give me an update on Floormax?

- Shobhan Mittal** So, we're doing a give and take an average sale of about, between Rs.1.8 to 2 Cr, so we should close the year between Rs. 25 to 27 Cr this year.
- Vijay Karpe** And there was an question regarding the distributor network. Now, we are expanding our MDF distribution network. So, is it mainly in the South because of our new plant?
- Shobhan Mittal** Well, South will definitely become a point of focus, but since the volumes in the North also have to increase because the capacity from the South would transfer to the North. So, we'll of course also have to focus. It has to be a focus across India in order for us to be able to sell 3 times the capacity. It's not a zone-centric focus, I would say.
- Vijay Karpe** And what are the per kg timber prices, ruling right now?
- Shobhan Mittal** I think average would be about Rs. 3.3 per kilo for the MDF production.
- V. Venkatramani** On a 50% moisture basis.
- Vijay Karpe** And now we are going for Gujarat plant for veneer, is the Gujarat plant and the Africa plant the same?
- Shobhan Mittal** The Gujarat plant would be decorative veneer which is like a surfacing material, it's like natural teak or could be oak etc whereas the product we produce in Africa would be commercial veneer, which is used for the face veneer, for commercial plywood.
- Vijay Karpe** And my last question is, do we think that this demonetization is a blessing for us because we already had all the plants at full capacity. So, don't you think that demonetization is good news for us because we already had capacity constraints?
- V. Venkatramani** Yes. So, I think demonetization will definitely have very beneficial impact for all branded players across industries. So, while short-term it's bad for everyone, whether it's a branded or an unorganized player. But once we see buyers returning back to the markets, so it should be hugely beneficial for organized branded players.
- Vijay Karpe** And has the demonetization anyway affected our expansion of the Andhra Pradesh plant or we are moving full steam ahead?
- V. Venkatramani** We are moving normally because that plant is anyway scheduled to start production in September-October 2018. So, that's on schedule.
- Moderator** Thank you. We will move on to the next question, which is from the line of Pratik Choudary, who is an Individual Investor. Please proceed.
- Pratik Choudary** Sir, could you tell me what has been the price decline in core timber prices, as you said that there were around Rs. 3.3 per kg, so what was it same time last year?
- Shobhan Mittal** That was on account of MDF, the raw material prices mentioned Rs. 3.30 per kilo is on account of MDF, and it's not for plywood, reduction that we've seen is on the plywood side.
- Pratik Choudary** And what would be the price, since you spoke about price reduction taking place in core timber prices as well in India. So, what could be Y-on-Y decline?

- V. Venkatramani** So, if we look at core timber prices over the last one year, they might have peaked at around Rs. 6.5 per kg and at the low point they were around Rs. 4.30 per kg. So, there was a significant movement in prices.
- Pratik Choudary** Of this currently they're around about Rs. 4 - Rs. 4.5?
- V. Venkatramani** Currently they are about Rs. 5 - Rs. 5.10 paisa.
- Pratik Choudary** And July-August you saw them going down to Rs. 4 – Rs. 4.5?
- V. Venkatramani** Yes. So, the upward moment, which has started now is primarily due to demonetization. Like I mentioned, farmers are facing a liquidity crisis and because they're unable to pay laborers, there is a shortage of raw material availability, which has influenced prices.
- Pratik Choudary** But given that since a lot of these units in the other unorganized segment they got shutdown. So, same way the demand also must have come down significantly.
- V. Venkatramani** It must have come down, but then you see, the liquidity crisis had a huge impact. So, if farmers need to pay say on a weekly basis about Rs. 20,000 to the laborers and they were being faced with the situation where they could withdraw an amount, which was just sufficient to meet their personal requirement. So, there was no cash availability for business.
- Pratik Choudary** And sir, our domestic timber prices anyway affected by imports?
- V. Venkatramani** No, domestic timber prices are not influenced by imports.
- Moderator** Thank you. We will take our next question from Abhishek Lodhiya from Angel Broking. Please proceed.
- Abhishek Lodhiya** My question is towards how much of quantum we are raising from German bank for our Andhra Pradesh plant?
- V. Venkatramani** So, we are raising approximately Rs.320 crore from the German bank.
- Moderator** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you.
- Shobhan Mittal** So, thank you everyone for joining the quarter three numbers call. We are, of course, available for any further questions or queries you may have by email. So, do let us know if there are any queries. And thank you very much. We look forward to see you again in next quarter. Thank you.
- V. Venkatramani** Thank you.
- Moderator** Thank you. Ladies and gentlemen, on behalf of Greenply Industries that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.