

Taking a fresh stance



More action is expected from Greenply after it has made a new beginning

Shobhan Mittal: passing the baton

the biggest MDF manufacturing plant in Asia. It is also demerging the MDF unit as a separate entity.

With furniture giants – both global and domestic – like IKEA, Urban Ladder, Pepperfry, etc, expanding in India, the consumers' preference for MDF products is expected to bolster the demand. Greenply wants to cash in on this opportunity – so much so that the MDF division becomes an equal contributor to its topline in the next four-five years. For nurturing the MDF business and developing a new vertical stronghold, the baton has been passed on to Shobhan Mittal, the youngest son of Shiv Prakash Mittal.

Rebranding drive

Its massive scale MDF plant in Chittoor, Andhra Pradesh, which was recently partially commissioned, will eventually have installed capacity of 3,60,000 cu m and is expected to become fully operational in 3-4 years. "Our manufacturing units are equipped with state-of-the-art European machinery to deliver the best quality products to our discerning customers. The new MDF plant in Chittoor, apart from being the most technologically advanced plant, is also the largest of its kind in Asia. Spread across 200 acres, it has an annual production capacity of 360,000 cu m. The mega project has entailed an investment of close to ₹800 crore," says Shiv Prakash Mittal, chairman, Greenply Industries.

This ₹800 crore bet on a single production unit has also been closely followed by a major rebranding, wherein its products including MDF, wood floors, plywood, veneers and doors will now be made, distributed and marketed under the brand name Greenpanel. "The company is seeking regulatory approvals for the demerger of the MDF unit," says V. Venkatramani, CFO, Greenply Industries. "It will be a separate entity, governed by a different team".

These developments are directed to maximise the opportunities, which the

Greenply is like a batsman at the crease, taking a fresh stance in the middle of his long innings. "We will be aligning with a smaller pillar of the wood panel business for our future growth," comments Shobhan Mittal, Jt MD & CEO, Greenply Industries, almost in a matter-of-fact style. Prima facie, aligning with a smaller pie to grow big appears to be a contrarian strategy. But seen from the overall sectoral perspective, the comment subtly underlines the interesting churn in the over ₹20,000 plus crore wood panel business in the country. In this sector, there has been a decisive shift in favour of medium density fibreboard (MDF) – a much denser product than the commonly used plywood. MDF is increasingly becoming more popular in most of the matured as well as the emerging markets. "For all companies which have plywood as their stronghold, making it big in MDF

is clearly the next big frontier," says Rohit Sadaka, India Ratings.

For Kolkata-headquartered Greenply, which was formed in early 1990s by serial entrepreneur Shiv Prakash Mittal, alignment with MDF is not new. Its large plant in Rudrapur, UP had started manufacturing MDF around 2010. It has been one of the first movers in the segment where Greenply, Century Plywood, Kit Ply, amongst others, are strongly positioned. And, gradually the company has built a base in its MDF range, which so far has been running as a side-show to its plywood business. But now the public traded company (enlisted on BSE in April, 1995 and NSE in March, 1996) has decided to up the ante, making MDF the fulcrum of its business, going forward. For this, the company has made an investment of ₹800 crore, setting up a dedicated plant in Andhra Pradesh, which would eventually be

company is expecting in the MDF segment. “I would not say that we find ourselves at an inflection point,” underlines Shobhan Mittal. “We are enhancing our presence in a segment where we have considerable experience and a modest market share. In the recent years, we have been considered as a strong plywood producer with rooting in MDF business. Now, we would like to be known as a strong MDF producer as well in the years ahead”. The Indian the wood panel market is currently estimated to be ₹25,000 crore, of which plywood alone accounts for ₹18,000 crore. Laminate offerings are broadly in the range of ₹4,000 crore, while MDF domestic business is estimated in the range of ₹2,000 crore. While the unorganised segment controls 75 per cent of the business, the rest is in the hands of leading players like Greenply, Century Plywood, Greenlam, etc. But post-GST, most believe that the share of the organised segment would shoot up significantly. In a specialised section like laminates, the organised players already have a 60 per cent share of the pie.

While MDF is a small pie of the overall ₹20,000 crore wood panel business, it is expected to grow exponentially. “There are three categories of plywood, which are broadly used for commercial and residential usage – premium, mid-category and lower segment. MDF with their cost advantages and robust durability are expected to replace lower segment plywood. In many matured economies, they have already developed a huge edge over other segments accounting for over 50 per cent of wood panel market,” observes Amarjeet S. Maurya, equity researcher, Angel Broking. In terms of pricing comparison between MDF and the lower segment of plywoods, the former is estimated to be cheaper than the latter by 20-30 per cent. Venkatramani points out that MDF is a high margin business. “In the plywood business, the margin is normally to the tune of 10 per cent. In MDF, it is slightly lower than 30 per cent. It’s a big difference, even as the one-time cost of setting up a MDF manufacturing unit is higher than a plywood unit,” he says.

Equal footing for MDF

Market analysts agree that Greenply,

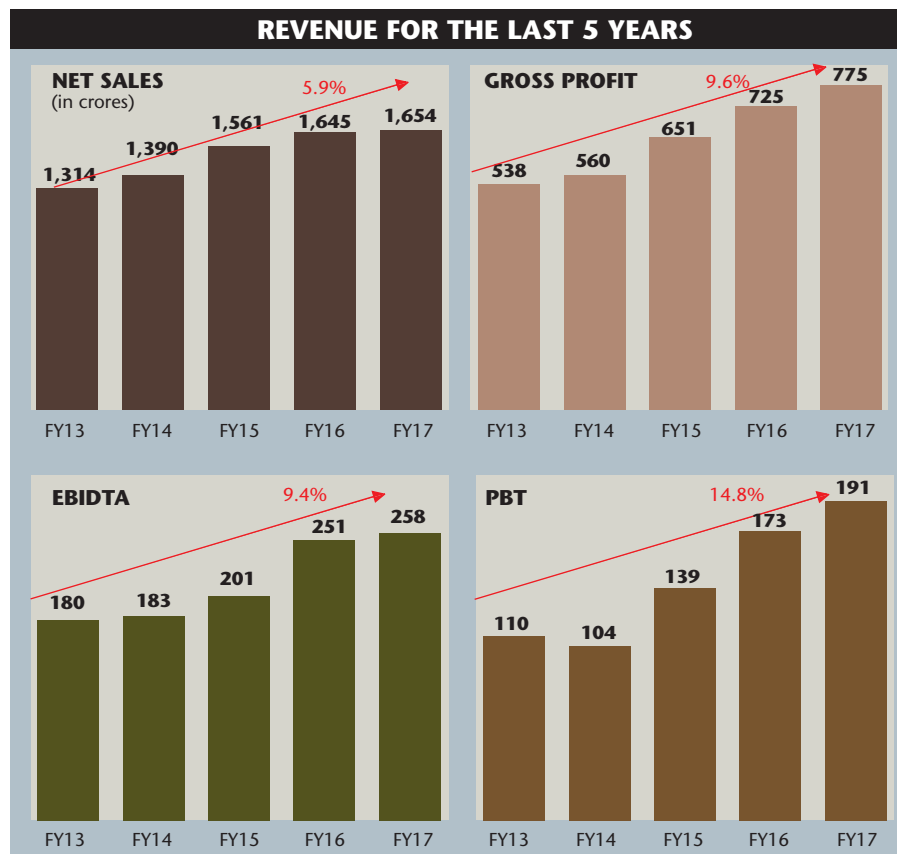


Shiv Mittal: MDF to contribute more

is at the forefront of the expanding MDF business, which has been further consolidated by the setting up of the ₹800 crore plant. Though there is a larger realisation within the industry that MDF is the next big frontier, only a handful of players have made the moves to create a production base. “There aren’t too many players, who have gone to the extent of investing in creating Greenfield production

units,” says Rohit Sadaka. “It’s capex-intensive and, apart from Greenply, only Century Plywood, Balaji Action Buildwell and Rushil Décor have set up their units. Others are still in the planning process. Among these, Greenply’s unit is the biggest and it can deliver a huge advantage to them going ahead as demand for MDF has been consistently (9-10 per cent) outpacing the demand for plywood (7 per cent) in the domestic market”.

Century Ply too has set up a large unit in Punjab, with an annual capacity of around 200,000 cu m at an estimated investment of over ₹300 crore. “The present consumption volume of MDF in the domestic market is about 600,000 cu m and, with a low domestic production capacity at present, about 180,000 cu m is imported every year. So, those who are setting up large capacity units, will reap rich dividends in a growing market,” adds Sadaka. The gradual addition of MDF strength, would propel the fortunes of Greenply for the year ending March 2018, which had reported a topline of over ₹1,650 crore at the end of March 2018 fiscal. “GIL has added a new MDF plant in Andhra Pradesh,



Rudrapur plant



which would increase the capacity from 180,000 cu m to 540,000 cu m (the new plant can generate revenue of ₹800-900 crore). The total capex required for this MDF plant is ₹700 crore, out of which the company has already spent ₹550 crore till 1H 2017-18, with the balance expected to be spent by 2018-19. The commercial production would start from 2Q 2018-19, boosting the company's profitability.

Currently, the company has a 30 per cent market share in MDF, the research wing of Angel Broking had observed. With a distribution network comprising 35 branches, over 2,000 dealers and 10,000 retailers, the company is well poised to derive mileage out of the expected push to Pradhan Mantri Awas Yojna – a massive scale housing programme of the government.

The company is clear that it will make MDF an equally robust pillar of its business as plywood. "If you look at the current composition of our business, plywood has 70 per cent share in the topline, while the remaining comes from MDF. We would like MDF to contribute 50-60 per cent of our revenue by 2021-22. We are expecting both the verticals to reach the range of ₹1,500 crore each in the next four-five years," says Shobhan Mittal. Currently, the contribution from MDF to the total revenue of the company is less than ₹500 crore, with the remaining coming from plywood and other allied products. The company also has larger plans to enhance its earnings from exports. "We would like to enhance our exports from 12 per cent to 30 per cent. We are particularly inclined to

enhance our supply base to the Middle-East, where the demand for MDF is rapidly growing," says Venkatramani.

Shobhan Mittal hints at another catalysing factor that may come into play in the near to medium run – the expansion of business by large-scale furniture specialists like IKEA and Urban Ladder. "We are talking to IKEA," adds Mittal. "Of course, their need for procurement of MDF has not taken shape, because they are not making their products here. And, we are a raw material supplier not a finished goods supplier. But, at some stage, we can join hands. We are in constant touch with them." IKEA incidentally is opening its mega-scale debut store in India next month in Hyderabad, which will be followed by launches in Mumbai, Bengaluru and Delhi in the next one-two years.

It is quite logical to ask here, while so much has been planned for the recently born baby, what lies in store for Greenply's mainstay for the past two decades – the plywood business? "We have nearly one-fourth of the market share in the organised plywood business in the country. Our present production capacity base is 32.4 million sq m. This is enough to take care of projected demand increase for at least the next three years. There is no immediate

plan to scale it up in a major way," says a senior official of the company.

Stagnant numbers

But even as Greenply has drawn a big picture for the medium run and, accordingly, made some swift moves, last year was not too good for the company (see graph). Between 2013 and 2016, its revenue had grown at a steady pace, rising from ₹1,314 crore to about ₹1,650 crore. However, there is a serious sign of stagnation reflected by its 2017-18 numbers. Most industry experts, however, attribute it to GST, which has impacted the sector. At the time of the introduction of GST, plywood was placed in the highest tax slab of 28 per cent, which has now been revised to 18 per cent and the manufacturers are hopeful it will result in a quick recovery. The last quarter of the previous fiscal, however, was bad for the company, with its net revenue declining by 6 per cent – ₹420 crore to ₹446 crore earned in the corresponding quarter in 2016-17. While its PAT went down by 22 per cent, there was also a major decline of 23.7 per cent in its revenue from MDF – something it was betting big on. Venkatramani, however, calls it a momentary aberration, which the company will tide over soon. "One of our major competitors had cut down the prices on MDF offerings by 9 per cent," he explains. "It had a bearing on the revenue, but we will respond to it. With our production capacity improving from Q2 of the current fiscal, we are expecting a 12-15 per cent growth in our plywood business and 40-50 per cent growth in our MDF business in the current fiscal".

Independent analysts also agree that the period of stagnancy will not be a long-lasting impediment for the company. "GIL is expected to report a net revenue CAGR of 14 per cent to ₹2,478 crore over 2017-20 mainly due to the healthy growth in plywood and lamination business and MDF (capacity expansion), on the back of the strong brand and distribution." But there is always the danger that, with the company expanding the MDF plant, with a capex of ₹700 crore, any slowdown in the MDF market can impact the company's earnings due to higher fixed cost overheads. Prima facie, the company has right equations for future growth.

Production capacities of manufacturing facilities	
Pantnagar Uttarakhand 1,80,000 cubic metre	Andhra Pradesh 3,60,000 cubic metre

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