



**Greenpanel Industries Limited**  
**Q1-FY20 Earnings Conference Call Transcript**  
**August 14, 2019**

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**Moderator:** Ladies and gentlemen good day and welcome to Q1 and FY20 Earnings Conference call of Greenpanel 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. Please note this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, Sir.

**Rishab Barar:** Good day everyone and thank you for joining us on the Greenpanel Industries Q1 FY20 Conference Call. We have with us today Mr. Shobhan Mittal – Managing Director and Mr. V. Venkatramani – CFO.

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 regards available in the results presentation that were sent to you earlier. I would now like to invite Mr. Shobhan Mittal to begin the proceedings of the call. Thank you and over to you, Sir.

**Shobhan Mittal:** Thank you Rishab, a warm welcome to everyone present and thank you very much for joining us today to discuss Greenpanel's operating and financial performance for Quarter 1 FY20. This is our first interaction with you on this forum and we look forward to many more such communications with you in the future. 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.

As most of you are aware, consequent to the approval of The Honorable NCLT, Guwahati bench on the composite scheme of arrangement between Greenply Industries and Greenpanel Industries, Greenpanel Industries is now a demerged and separate entity. We believe that this transaction enables increased focus on our core MDF business which comprises around 75% of our revenues. We are currently in the process of getting listed and expect that the listing process would be completed by the end of August.

To give you a brief overview of our business:

We have two MDF plants at Uttarakhand and Andhra Pradesh with capacities of 180,000 cubic meters and 360,000 cubic meters respectively, aggregating to 540,000 cubic meters. Our Uttarakhand plywood plant has an annual capacity of 10.5 million square meters. Quarter 1 Plywood revenues increased by 56.7% to Rs. 51.58 crores compared to 32.93 crores in the corresponding quarter. MDF revenues increased by 61.1% to Rs. 146 crores compared to Rs. 91 crores in the corresponding quarter.



Gross margins were lower by 960 basis points at 50.25 due to price reductions and change of domestic and export mix in the MDF sales. EBITDA margins fell by 690 basis points to 13.9% due to reasons mentioned above for fall in gross margins and low capacity utilization in the Andhra Pradesh MDF plant which stood at 55% for the quarter. We are hopeful that with the stricter implementation of GST and e-way bill system, unorganized players will be forced to increase prices leading to a level playing field for organised players which will aid us in increase our market share.

A challenge continues to lie in the MDF segment due to over capacities and imports. However, with capacity additions slowing down and price wars coming to an end, we are confident of a strong turnaround in the medium to long term.

I would now like to handover the call to Mr. Venkatramani for the financial numbers.

**V. Venkatramani:**

Good afternoon everyone. I thank everybody for joining us to discuss the Q1 FY20 financial performance of Greenpanel Industries. In Quarter 1 our top line was up by 60% at Rs. 198.44 crores compared to Rs. 124.07 crores in the year on year quarter. Plywood revenues grew by 56.7% at Rs. 51.58 crores and comprised 26% of the top line. MDF revenues were up by 61.1% at Rs. 146.86 crores leading to an overall growth in revenues. In Q1 our gross margins grew by 34.1% at Rs. 99.6 crores although they fell by 960 basis points primarily due to price reductions and change in domestic- export mix. Average realizations of Plywood fell to Rs. 244 per square meter due to lower sales of decorative veneers. MDF realizations were down by 25.7% to Rs. 18,672 from Rs. 25,131 per cubic meter in the corresponding year quarter due to change in domestic-export mix and price reductions. EBITDA for the quarter was high up by 6.8% at Rs. 27.53 crores but the operating margins for the quarter were lower by 690 basis points at 13.9% primarily due to low capacity utilizations at the Andhra Pradesh plant and change of domestic export mix and price reductions. However price wars appear to be coming to an end since we took a price increase of 4% in thick MDF in North India around 15<sup>th</sup> of June. EBITDA margins were 24.85% at the Uttarakhand plant and 2.69% at the Andhra Pradesh plant. Profit after Tax was down by 80.8% at Rs. 2.7 crores compared to Rs. 14.09 crores in Q1 FY19.

Plywood capacity utilizations were higher at 77%, its production volumes at 2.02 million square meters compared to capacity utilization of 42% and production of 1.11 square meters in the corresponding year quarter. MDF capacity utilization was 60% on a consolidated capacity of 5,40,000 cubic meters with the Uttarakhand plant operating at 68% and the Andhra Pradesh plant at 55%. MDF capacity utilization was 79% in the corresponding year quarter on a capacity of 1,80,000 cubic meters. Our working capital turnover days reduced by 31 days at 45 days compared to 76 days in the year on year quarter and 65 days in the immediately preceding quarter. Our net debt to equity ratio stands at 0.83 as on 30<sup>th</sup> June, 2019.

That concludes our presentation. I would now request you 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 our first question from the line of Nehal Shah from ICICI Securities, please go ahead.

**Nehal Shah:**

Thank you Sir for the opportunity. My first question is on MDF realizations; where do you see realizations going forward, particularly in North of India considering the kind of price hike we have taken recently on 15<sup>th</sup> of June. So, I think that is first and second, where do you see realization shaping up in South of India?

**Shobhan Mittal:**

Well in the North of India, Nehal at the moment as of now we expect that the realizations at current levels to be stable in the thick MDF the price increases were

only taken in the thick MDF. At the moment, in thin MDF due to lack of anti-dumping and due to imports, we are not planning any price increases in thin MDF, although we may look into it due to the strengthening of the dollar and if the dollar remains at these levels. In the South of India, again there may be a possibility of certain price improvements because again South of India being dominated by imports and again looking at the dollar situation and if this remains at these levels, we may consider a price hike in the South of India as well. On the export side, furthermore there is news that generally there will be some price increases taken by the South East Asian producers which are our primary competitors in the export market. So, we are again watching that and if that happens then we may take some price improvements in the export business as well.

**Nehal Shah:** Alright. Sir what has been the export mix in the current quarter and where do you see it shaping forward?

**V. Venkatramani:** In June quarter, our exports quantum was 30,805 cubic meters and export sales were Rs. 36.54 crores compared to 5,772 cubic meters and export sales of Rs. 9.70 crores in the corresponding June quarter of last year. So, exports have increased significantly going up almost four times over the past one year. I think we will look at maintaining the exports volumes at this level for the current year.

**Nehal Shah:** If you can give a percentage of the sales volume mix for the year?

**V. Venkatramani:** We are targeting about 85% capacity utilization at the Uttarakhand plant where domestic is almost 98%, 99% and in Andhra Pradesh we are targeting capacity utilization of 60% which will be roughly 2,16,000 cubic meters. At Andhra Pradesh, we are targeting 93,000 cubic meters for the domestic markets and 1,23,000 cubic meters for the export markets.

**Nehal Shah:** And 93,000?

**V. Venkatramani:** 93,000 domestic and 1,23,000 exports; total 2,16,000.

**Moderator:** Thank you, we have our next question from the line of Gautam Bahal from Mauryan Capital, please go ahead.

**Gautam Bahal:** Hi Sir, I just have a specific question; what is your domestic EBITDA margin in MDF, this quarter?

**V. Venkatramani:** I think if we want to look at the domestic margins, you know because of the lower capacity utilizations at the Andhra plant, it is at lower levels but I think the Rudrapur EBITDA margins at 24.85% would be a significant pointer. So, going forward as our capacity utilization improves at the Andhra Pradesh plant and we are able to increase the volume of domestic sales, so we should be targeting 18% EBITDA margin for the current year.

**Gautam Bahal:** Okay and Sir you said that you are targeting 68% utilization in this year in Andhra Pradesh plant?

**Shobhan Mittal:** 60%.

**Gautam Bahal:** In the presentation, maybe I thought 68%, but okay, 60% but in FY21 where do you see it?

**V. Venkatramani:** 68% is the blended of Uttarakhand and Andhra Pradesh.

- Gautam Bahal:** Okay, for Andhra Pradesh where do we see that number in FY21?
- V. Venkatramani:** We are targeting 80% next year.
- Gautam Bahal:** And Sir, last question that I have, your competitor came on TV couple of days back and he said that MDF has completely bottomed out and from here things should only improve, do you kind of agree with his assessment?
- V. Venkatramani:** Yes sure.
- Moderator:** Thank you Sir, we have next question from the line of Achal Lohade from J M Financial, please go ahead.
- Achal Lohade:** Thank you Sir for the opportunity. My first question was with respect to the North plant; you said the utilization was about 60% for the quarter, what is the utilization for North plant for the first quarter?
- V. Venkatramani:** At Uttarakhand, the capacity utilization was 68%.
- Achal Lohade:** And you indicated that we are looking at 85% for FY20, now my question was; a) with respect to the pricing what is the mix from thick MDF in terms of volume and b) we have just been told on the conference call our competitor is talking about additional capacity, they are considering in the State of UP. So, I was just curious do you see that the pricing pressure could again return back for the North volumes as well.
- V. Venkatramani:** It would depend upon when they are able to start the production at the new plant, I do not think a new plant could possibly start in operations this year. Hence, we should not face any further pricing pressures in the current financial year.
- Achal Lohade:** Understood, and if you could talk about what kind of margins one could expect for North as well as the South plant for FY20 and FY21?
- V. Venkatramani:** For FY20 we are targeting 21% EBITDA margin for the Uttarakhand plant and 11% for the Andhra Pradesh plant and FY21 we are targeting 23% for the Uttarakhand plant and 13% for the Andhra Pradesh plant.
- Achal Lohade:** In terms of the cash flows, so what is the kind of repayment we have for next couple of years?
- V. Venkatramani:** We will be repaying approximately Rs. 100 crores this year and post that we will be repaying roughly Rs. 71 crores on an annual basis.
- Achal Lohade:** And with respect to the Ply business, I understand I mean Y-o-Y may not be the right way of looking at but what kind of revenue and margins can we possibly look at for the Plywood business?
- V. Venkatramani:** For the current year?
- Achal Lohade:** Yes, for FY20.
- V. Venkatramani:** We are targeting revenue of Rs. 194 crores, so close to about Rs. 200 crores of revenue and an EBITDA margin of 13% for the full year although it was substantially higher in the first quarter.

- Achal Lohade:** Is there any particular reason for; is there any some write back or something in the first quarter?
- V. Venkatramani:** There was some nominal write back but nothing substantial.
- Achal Lohade:** And just a clarification with respect to the GST refund, have you booked anything for the current quarter in the Plywood as well as MDF business?
- V. Venkatramani:** Yes, we have so I think possibly about Rs. 1.5 crores in this current quarter.
- Achal Lohade:** Both the businesses put together?
- V. Venkatramani:** Yes, it is only in Uttarakhand, we do not have any GST incentive in Andhra Pradesh.
- Achal Lohade:** Yes but is that only for MDF or is that for Ply business also.
- V. Venkatramani:** It is only for MDF.
- Moderator:** Thank you Sir, we have our next question from the line of Pranav Mehta from Equirius Securities, please go ahead.
- Pranav Mehta:** Sir wanted to understand on currently the pricing differential between cheap Plywood and MDF; is it coming down and is it one of the reasons why growth in MDF is picking up?
- Shobhan Mittal:** There is definitely pressure of pricing and cost on the cheap Plywood segment, however I would not say that we are seeing an immediate effect of that due to the unorganized ways of this business and you know people are still practicing under-invoicing and tax evasion in these businesses but yes, we do expect that in a near or midterm we will see benefit of this coming to the MDF segment.
- Pranav Mehta:** Okay Sir and another thing is, which are exports what is the difference between realization between exports and domestic market?
- Shobhan Mittal:** So, exports are primarily on the base category product which is the Industrial rate product, so our realizations are at about Rs. 12,000 per cubic meter level and if we compare that with our domestic realizations from the same plant in the South of India, we are at about Rs. 21,000 odd cubic meter levels which includes the value added products as well.
- Pranav Mehta:** And another thing; the Rushil Décor Plant, is it going to come by the second quarter of this year or has it been delayed, anything you are hearing on that front?
- Shobhan Mittal:** I mean as far as our news goes, it is expected to start production in this, maybe by the end of the financial year.
- Pranav Mehta:** And you see any pricing in South India because of this??
- Shobhan Mittal:** South of India we do not see any pricing pressure because today the predominant threat is imports, you know. So, we do not foresee a major pricing pressure in the South of India because today the domestic share compared to you know in the value-added products there is no imports, so that is a segment that we are not so concerned about, it is primary. The main segment which is the industrial segment, today in that segment imports are the dominant player, so I do not foresee a major challenge on that front.



- Pranav Mehta:** And Sir what is the percentage of imports currently in the South India.
- Shobhan Mittal:** Only for South India?
- Pranav Mehta:** For South India particularly and for entire country as well, if you can share this.
- Shobhan Mittal:** I think imports on an overall Pan India basis would be close to 30% and in the South of India especially on the coastal areas on the Industrial rate side would be higher, so I would say would be close to maybe 40% to 50%.
- Moderator:** Thank you Sir. As there are no further questions from the participants, I now hand the conference over to the management for closing comments, over to you.
- Shobhan Mittal:** Thank you everyone for joining the call and we look forward to getting back to you with our next set of results in the subsequent quarter and if anyone has any further questions, please feel free to get in touch with our team, thank you so much.
- Moderator:** Thank you very much Sir. Ladies and Gentlemen, on behalf of Greenpanel Industries Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.