**Greenpanel Industries Limited**

Q3 & 9 Months FY20 Earnings Conference Call Transcript
February 6, 2020

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**Moderator:** Ladies and gentlemen, good day and welcome to Greenpanel Limited Q3 & 9 Months FY20 earnings conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

**Rishab Barar:** Good day everyone and thank you for joining us on the Greenpanel Industries Limited's Q3 & 9 Months FY20 conference call.

We have with us today Mr. Shobhan Mittal – Managing Director & CEO and Mr. V. Venkatramani – CFO.

Before we begin I would like to state that some statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result's presentation which was 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 very warm welcome to everyone present and thank you for joining us to discuss Greenpanel's operating and financial performance for Quarter 3 FY20.

We will give you a small brief on the financial numbers. Net sales are up by 45% at Rs. 225.3 crores. Gross margins and EBITDA margins are down due to price reductions and change in the domestic and export mix. A foreign exchange loss of Rs. 11.8 crores on long term borrowings of our Andhra MDF plant which impacted our PAT.

We have had a strong quarter on the back of good volume growth in MDF. Volume growth stood at 47% Year-on-Year and 38% Quarter-on-Quarter. Operational enhancements have also enabled continued working capital improvement. Our working capital days have reduced by 38 days Year-on-Year and 11 days Quarter-on-Quarter.

Another positive for the company is us having repaid Rs. 80 crores of long term loans during the 9 months under review. We plan to repay a further Rs. 25 crores in quarter 4.

Given we are a fairly new company and we often get this question, let me confirm the details of our capacities. Greenpanel has two plants for MDF, one in Pantnagar in Uttarakhand with 180,000 cubic meter capacity annually and the second one in Chittoor in Andhra Pradesh with 360,000 cubic meters annually. We also have a plywood plant at Pantnagar in Uttarakhand with a capacity of 10.5 million square meters.

I will now request Mr. Venkatramani to run you through the financials in greater detail. Thank you.

**V. Venkatramani:** I thank you for joining us to discuss the Q3 & 9 months FY20 financial performance of Greenpanel Industries. In Q3 our topline was up by 45% compared to the Year-on-Year quarter. Net sales stood at Rs. 225.31 crores compared to Rs. 155.09 crores in Q3 FY19. Plywood business had volume growth of 59% whereas the MDF business volumes grew by 47%.

Plywood business grew by 84% in value terms and MDF business had a 35% value growth. In Q3 gross profit grew by 35% at Rs. 115.29 crores versus Rs. 85.40 crores in the Year-on-Year quarter. EBITDA grew by 20% in value terms at Rs. 35.37 crores compared to Rs. 29.48 crores in the corresponding quarter. Gross margins and EBITDA margins were down by 390 bps and 330 bps respectively.

This was primarily due to price reductions and a change in our domestic export mix in MDF. PAT for the quarter stood at Rs. 1.31 crores compared to Rs. 12.66 crores in the corresponding quarter due to foreign currency loss of Rs. 11.81 crores on long term borrowings for the AP MDF Plant.

Coming to the year-to-date figures, in 9 months FY20 our topline was up by 50% compared to the corresponding Year-on-Year quarter. Net sales stood at Rs. 603.13 crore compared to Rs. 402.99 crores in 9M FY19. Plywood business had volume growth of 63% whereas the MDF business volumes grew by 70%. Plywood business grew by 64% in value terms and MDF business had a 45% value growth.

In 9 months FY20, gross profit grew by 33% at Rs. 314.51 crores versus Rs. 236.61 crores in the Year-on-Year period. EBITDA grew by 49% in value terms at Rs. 93.88 crores compared to Rs. 62.93 crores in the corresponding period. Gross margins were down by 660 basis points whereas EBITDA margins were flat at 15.6%. Plywood sales in Q3 FY20 stood at 2.25 Million square meters versus 1.42 million square meters in the corresponding quarter with capacity utilization of 81%.

MDF sales volumes were 86,369 cubic meters versus 58,648 cubic meters in the corresponding quarter with blended capacity utilization of both plants at 58%. Capacity utilization in Uttarakhand and AP plants were 71% and 51% respectively in the quarter under review. Our debt-to-equity ratio was 0.77 as on 31 December 2019 compared to 0.86 as on December 31, 2018.

That concludes my presentation. I 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.

The first question is from the line of Nehal Shah from ICICI Securities. Please go ahead.

**Nehal Shah:** Sir, firstly on volume side. How has the growth been so strong particularly in the current environment? And as far as pricing is concerned are we seeing the threat of new plants coming in probably in the next few quarters?

**V. Venkatramani:** We have been concentrating on expanding our distribution network and also our sales team because we realized that there was no point in competing with the other MDF manufactures in the major cities which was just resulting in down trending in prices without any corresponding increase in volumes. So we are concentrating on expanding our distribution network also penetrating the cheap plywood segment and that is helping us to improve the volume numbers. And going forward we are confident of better numbers in the future quarters.

**Nehal Shah:** And sir, as far as pricing your realizations are concerned we have seen a downtick in domestic realizations?

**V. Venkatramani:** Yes, there has been a reduction in domestic realizations. That is primarily because we sold a lot of material which we had produced during the trial production phase. Initially we were concentrating on expanding the distribution network but at the same time we have now realized that we also need to reduce the inventories which were at substantial days compared to sales even in the previous quarter where it was about 66 days.

So we have been continuously focusing on reducing the inventories and that was the reason we sold almost about 2,000 cubic meters of MDF produced during the trial phase at the Andhra plant which was sold in the range of about Rs. 14,000 to Rs. 15,000 per cubic meter. Hence, that is the reason for the fall in realisations.

So there could be possibly repetition of this in Q4 where we expect to sell out the entire trial production material of Andhra plant. But going forward from Q1 onwards we feel that the realization numbers would be fairly stable.

**Nehal Shah:** How much would be the quantity remaining which would get sold out in Q4?

**V. Venkatramani:** Approximately about 1,000 to 1,200 cubic meters.

**Nehal Shah:** What would be the loss on sale of these goods for the current quarter if we have calculated the impact on the EBITDA?

**V. Venkatramani:** It would be approximately in the range of about Rs. 2.3 crore.

**Nehal Shah:** On EBITDA?

**V. Venkatramani:** On EBITDA, that is correct.

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

**Achal Lohade:** Pardon me if I am repeating the same question. Can you help us understand if I remove this 2,000 CBM, have you seen the prices remaining stable or there is actual reduction in the balance MDF as well for the domestic market?

**V. Venkatramani:** See there will always be some minor fluctuations depending upon the mix of products, whether we are selling more plain material or more of exterior grade material and to some extent it will also depend on the volumes achieved in the flooring business. Our plain domestic realizations is around Rs. 20,000 per cubic meter, flooring realizations are Rs. 60,000 plus per cubic meter.

So these small factors will always have an impact on realizations Q-on-Q but once we have disposed of this trial production material we feel the impact of realizations on margins will not be there.

**Achal Lohade:** In other words, the domestic prices seemed to be stable, is that a fair understanding or is there no price competition?

**V. Venkatramani:** That is correct.

**Achal Lohade:** It is stable, okay. And is it possible for you to kind of give the breakup in terms of how much volume from North, South and how much exports from these plants?

**V. Venkatramani:** Exports I can give you immediately. So export volumes were 28,713 cubic meters in this quarter compared to 12,679 cubic meters in Q3 FY19. So the rest of the details I will provide you later, which is the geographical break up.

**Achal Lohade:** And what about the EBITDA margin for North and South plant? Would you be able to share that?

**V. Venkatramani:** In this quarter EBITDA margins for the northern plant was 23.24% and for the south plant was 12.26% and blended was 17.18%.

**Achal Lohade:** And what is the target we have for FY21 in terms of the utilization for North and South in the margins?

**V. Venkatramani:** We would be targeting 85% capacity utilization in Uttarakhand and a 75% capacity utilization in Andhra. So that would give us a blended capacity utilization of about 78%.

**Achal Lohade:** And what about margin?

**V. Venkatramani:** We would be targeting about 13% EBITDA margin in plywood and 18% EBITDA margins in MDF.

**Achal Lohade:** 18% at blended but possible to share in terms of margins for north and south separately?

**V. Venkatramani:** For Uttarakhand we are targeting 22% EBITDA margin even though capacity utilization is increasing. There will be a small fall in margins because this is the last year for GST refund of the Uttarakhand plant. So that will have an impact of about 2.4% on the next year's margins. But because of increase in capacity utilization substantial part of that should be made up. And for Andhra we are targeting a blended EBITDA margin of 15% for domestic and exports put together.

**Achal Lohade:** And just last question if I can. So you have mentioned in the opening remarks that you would be looking forward to repayment of about Rs. 25 odd crore in the fourth quarter. But from a FY21 full year perspective what kind of repayments are due scheduled repayment and what is the interest expense as well?

**V. Venkatramani:** So as far as scheduled repayments are concerned, it is about Rs. 72 crores next year and in terms of the interest cost, interest cost should be about Rs. 24 crores on a borrowing of about Rs. 495 crores at the beginning of the next year. So approximately about 5%.

**Moderator:** Thank you. The next question is from the line of Gaurav Sood from NF Capital. Please go ahead.

**Gaurav Sood:** So one thing I wanted to understand was this Forex loss of Rs. 11 crore. So while you say that your total borrowing cost on a Rs. 480 crore loan is about Rs. 24 crore but part of that cost is also reflected in the currency movements and the losses on the foreign denominated, Euro denominated loan.

So a more accurate figure would be closer to may be 8%, 9% rather than the 5% that you project, and the other issue is that this quarter your reported numbers dramatically decreased at the PAT level because of this Forex influence. So why do you not hedge your loans, that is something we wanted to understand?

**V. Venkatramani:** Okay so as far as the interest cost is concerned, I mentioned that we would be having an interest cost of approximately Rs. 24 crore on borrowings of about Rs. 495 crore at the beginning of the year which is approximately about 5%. And if we look at the past record of depreciation of the rupee, if you look at a 5 year average or a 10 year average rupee normally depreciates by about 4% to 4.5%.

But if we look to hedge the Euro we would be paying about 7% to 7.5% annually. That is the reason why we are not hedging the Euro loan although we have hedged the dollar loan. So assuming that we add a further 4% on that Euro loan of about Rs. 300 crore, so then I think we can take an interest cost of about Rs. 36 crore for next year which would work out to about 7.3%.

**Gaurav Sood:** So I guess the challenge for us is to kind of predict what will happen to your reported numbers given these M2Ms on the Forex side. So purely from a reporting point of view if you put actually highlight this particular asset?

**V. Venkatramani:** If you look at the notes below the results, we have put a small table there where we have highlighted the loss due to the currency factor. And it is also highlighted in the presentation where Mr. Mittal has given his comments on the numbers.

**Gaurav Sood:** Yes, for us who are tracking it closely we understand those numbers but for the general public the numbers come out very differently.

**V. Venkatramani:** Yes, definitely I understand your point.

**Gaurav Sood:** So the other is having heard Century Plywood they said that they took a price hike on the MDF side, earlier in this financial year and that is holding the realizations on a Year-on-Year basis which have improved. So why is this dichotomy that your realizations have gone down slightly even from the Uttarakhand plant which is in the Northern India? So is it an issue around the distribution that they have versus what you have?

**V. Venkatramani:** I mentioned that we have a mix of products like plain MDF, exterior grade MDF, pre-laminated MDF and also flooring. And I just mentioned a few minutes back in response to a question that the value of laminated flooring is about 3 times the price of the plain MDF. So plain MDF sells at around Rs. 20,000 per cubic meters whereas flooring sells at about Rs. 60,000 per cubic meters.

So depending upon the ratio of the mix of the products there will always be some uptrend or downtrend in the realizations although it might not necessarily have a substantial impact on the margins and if we consider pricing on a real term basis, there would not be any difference between prices charged by Century and Greenpanel in Northern India. Action would be slightly lower about 1.5% lower but there will not any difference between pricing of Greenpanel and Century.

**Gaurav Sood:** What is the utilization of the Northern India plant, the Uttarakhand plant? You said it was 71% so given that it is an old plant and we have been in production for a long time. Why are we not able to increase the utilization out there? Century currently is hitting close to 90% on their relatively a newer plant so just trying to understand what is playing out here and what that they are doing better than you in terms of there their operating margins for their plant are better and their utilizations are better?

**V. Venkatramani:** If you look at Century and Greenpanel, the primary difference is their total capacity which is 180,000 cubic meters whereas our capacity is 540,000 cubic meters.

**Gaurav Sood:** But sir, North we are also at 180,000 cubic meters, so as a practice in the northern are more or less similar both Century and Greenpanel?

**V. Venkatramani:** That is correct. Whereas Century have only one plant they can sell pan India from that one plant whereas in the case of our Northern plant it services only the Northern part and the Eastern part. The South and the Western geographies are serviced by our Southern plant. So because of the flow of orders the Northern plant is functioning at a lower capacity utilization. But we are confident of a higher capacity utilization in the next financial year. Like I mentioned we are targeting an 85% capacity utilization next year from the Northern plant compared to about 70% this year.

**Gaurav Sood:** So sir, I will come to the point around your AP plant. Was setting up the AP plant with 360,000 cubic meters capacity in South India where the realizations are lower and the capacity utilization for that scale of plant is much difficult to achieve. So was it a tactical mistake on our part to set up a plant there? Because we are competing with imports in Southern India and the realizations out there are much lower than in Northern India?

**Shobhan Mittal:** I would not say that was a tactical mistake because you see the reason for setting up the MDF plant in the South of India was (a) South continues to be the largest market in the country, (b) the value-added products like exterior paint are more sold in the South of India. That is also one of the reasons why value-added products from the North of India sales have reduced because the sales have shifted to the South of India.

And freight is a very, very important factor in when it comes to MDF. When we were servicing the South market from the North of India we were paying close to 15% to 17% of the sales value as freight for the trucks whereas now there is a saving of close to 7% to 8% on that account now that we started servicing from the South of India. So in the long run we are still optimistic that this was we are confident that this was a right move and we are already in the process of replacing imports as well in the South of India.

And had we been operating only from the North of India we were not in a position to do that at all. So in the long run we think that this was a right move. Since we are comparing with Century, although our utilizations in both the plants are lower, no doubt, but in sheer value and sheer volumes we are still the market leaders in the country with the most volumes sold across the country.

So this really is due to the sudden influx of capacities coming in all at the same time with us increasing, Action increasing and Century coming in to the picture this is a strenuous period for the market but in the long run we think this is a right move.

**Gaurav Sood:** Sir, I understand about the capacity expansion coming suddenly, just that Century seems to be doing a lot better than us in the current status they are looking for their capacity expansion and the only reason their expansion is delayed right now is because of some state level issues in the UP. As per the update they provided?

**Shobhan Mittal:** I am aware that Century is doing better because they are achieving 90% of their 180,000 cubic meters capacity whereas we have 540,000 cubic meters capacity hence our numbers are not as good. So I understand what you are saying why Century is doing better. But Century has also come into the industry at a much later stage as opposed to Greenpanel, so we had to take the expansion plan for further growth in the business.

**Moderator:** Thank you. The next question is from the line of Petros from LBBW. Please go ahead.

**Petros:** I just had a quick question on your finance cost. That has been answered in the meantime. So I am with for the moment. Thank you.

**Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

**Sneha Talreja:** Sir, could you just provide us with some data that how much is exports right now and how much is the domestic and what is the scenario, are we still getting lot of imports or are we easily able to replace and what is the pricing differential currently between the imports and our prices?

**V. Venkatramani:** Our mix of in MDF is 67% domestic and 33% exports in the current quarter. And going forward the domestic business will keep on growing as we improve our capacity utilization. We are also expecting that imposition of CVD on imports over the next six months would help us to gain market share from imports.

**Sneha Talreja:** What is the pricing differential currently between the imports and what is imported prices versus what are you offering in the southern market?

**V. Venkatramani:** So if we compare domestic pricing with imports, we have to divide it into two broad grades. On the thick MDF side, imports would be lower by about 10%. On the thin MDF side, imports would be lower by almost 30%.

**Rohan:** Rohan this side. Sir, can you provide further breakup of the current quarter utilization of North and South plants?

**V. Venkatramani:** Yes, in the current quarter Northern plant has operated at 71%, Southern plant has operated at 51% and blended capacity utilization is 58%.

**Rohan:** And this 9 months the same number was?

**V. Venkatramani:** So for the 9 months, Northern plant at 65%, Andhra plant at 52% and blended is 56%.

**Rohan:** So at South plant you are looking from almost 50% to going up to 75% next year. This will be helpful if you can give South plant further break up in domestic and exports because I understand that all the exports will be only from South plant so what is the divide right now in South plant, 50:50?

**V. Venkatramani:** In terms of sales, South plant exports are about 28,000 cubic meters out of total sales of about 54,000 cubic meters in this quarter. So domestic is 26,000 cubic meters and exports is 28,000 cubic meters from the Southern plant.

**Rohan:** Okay so roughly 50:50. When you are talking about achieving 75% utilization next year so how do you see that this mix changing domestic and exports of South plant only from the 50:50?

**V. Venkatramani:** At 75% capacity utilization we are targeting about 270,000 cubic meters and a mix of about 138,000 cubic meters domestic and 132,000 cubic meters exports.

**Rohan:** So it is likely to remain 50:50?

**V. Venkatramani:** Almost yes.

**Rohan:** So it means that you still will keep on selling more in exports market and the focus still remains on export?

**V. Venkatramani:** Yes, based on the current market conditions, I think yes, we would be more or less at a similar figure and the picture could change considerably if CVD is imposed in the next financial year.

**Rohan:** And if the CVD is imposed then you can completely replace the imported market?

**V. Venkatramani:** No, I would not say we can completely replace.

**Rohan:** I mean there is a large part.

**V. Venkatramani:** Yes, a substantial possibility that our domestic volumes would increase.

**Rohan:** Sir, any idea you can give right now imported volume number on South?

**V. Venkatramani:** I think we have a geographical breakup but pan India imports are close to 4 lakhs cubic meters out of a total of about 10 lakhs cubic meters.

**Rohan:** Okay so 4 lakhs cubic meters generally it is on South only, right?

**V. Venkatramani:** No, it is a mix of South and West. There are substantial inputs coming into Western India also both at Mumbai and Gujarat ports.

**Rohan:** Sir, second question on this realization front of MDF. So you still mentioned that despite this improvement in sharp utilization of MDF from almost 50% to 75%, your MDF margins in South is still I mean overall blended margin you are still looking 18% giving a further break up of North 22% which remains at the current level slightly lower 100 basis points but South at 15% already. So at this 18% EBITDA margin in MDF business, do you see that there is scope for improvement or you have factored in all the profitability?

**V. Venkatramani:** Yes, there is definitely scope for improvement because even with the significant increase in volumes we would still be operating at about 78% next year. So definitely there is substantial scope for improvement because at peak we can scale up the business to about 115% and over a period of time we would also be able to reduce the exports substantially. So definitely there is significant possibility of improving both the operating as well as the ROCE margins.

**Rohan:** Okay so that you are talking about further improvement is only possible if the debt will be probably at 22% when the utilization level will further go up. I was talking more for FY21 perspective that when our South plant utilization increases from 50% to 75%, are we under guiding on MDF blended margins or EBITDA margins of South plant which will still be 15%?

**V. Venkatramani:** Not really because like I mentioned we will be doing almost 50% business from exports where at this level of capacity utilization I think we will be doing 8% margin on exports. So it would be a substantial drag on the margins of the Southern plant. That is the reason why we are estimating about 22% margin at Uttarakhand and a 15% margin in AP.

**Rohan:** So in the South even in the domestic market your margins are very much aligned with the North, I mean roughly 21%, 22%?

**V. Venkatramani:** Yes definitely. Like at this level of capacity utilization for the domestic business we are estimating about 22% at Uttarakhand where we are targeting 85% capacity utilization and for the domestic Andhra business, we are targeting a 19% EBITDA margin.

**Rohan:** So may be in FY22 the focus will be more on moving or reducing the export and diverting it towards domestic market?

**V. Venkatramani:** It would be a mix of both the factors. We would like to scale it up from 78% get it as close to 100% as possible. So that would be our primary target and if the domestic markets improves then we would also look to reduce the exports by about 50%.

**Moderator:** Thank you. The next question is from the line of Dharmendra Dave from Prabhudas Lilladher. Please go ahead.

**Ajay Bodke:** Sir, this is Ajay Bodke from Prabhudas Lilladher PMS. Sir, could you give us the outlook for the plywood business? How do you expect the realizations to pan out? How are they in the current quarter, that is the fourth quarter and how do you expect them to pan out say over the next financial year?

**V. Venkatramani:** We are targeting a 80% capacity utilization in plywood during the current year, which would mean achieving volumes of about 8.83 million square meters and realization of approximately Rs. 250 per square meter. And for the next financial year, we would be targeting to utilize the full capacity of 10.5 million square meters at the same level of pricing.

**Ajay Bodke:** And has the sort of the activity picked up in the real estate sector, what is the kind of outlook sort of there that you are seeing on that account?

**V. Venkatramani:** It is still I would say that the entire environment is definitely challenging and liquidity is possibly the biggest concern. As I mentioned during past calls also, we could possibly increase sales by another 10% to 15% with increase in credit to the dealers but we are not adopting that policy because it does permanent damage to the working capital situation.

**Moderator:** Thank you. The next question is from the line of Karan Bhatelia from Asian Market Securities. Please go ahead.

**Karan Bhatelia:** Sir, how much CAPEX are we anticipating for FY20 and FY21?

**V. Venkatramani:** We have no CAPEX plans for the next two years FY21 and FY22. And I would estimate that maintenance CAPEX would possibly be somewhere in the range of Rs. 8 crore to Rs. 10 crore per year.

**Karan Bhatelia:** Assuming that there is no anti-dumping duty coming up for next?

**V. Venkatramani:** No, even if there is any anti-dumping duty, it would not have any impact on our expansion plans.

**Karan Bhatelia:** And sir, of the Rs. 11.8 crore of Forex M2M, how much of it is in EBITDA and how much in the interest cost?

**V. Venkatramani:** Rs. 1.25 crore is in EBITDA and the balance is in interest cost.

**Karan Bhatelia:** Can you provide the value-added income how much it is in MDF and how much it is in plywood and how that is shaping up?

**V. Venkatramani:** It is all entirely on MDF and specific to the Andhra plant. It is related to the foreign currency borrowings that we had done for the Andhra MDF plant. There is no impact on plywood or the Uttarakhand MDF plant.

**Karan Bhatelia:** No, in terms of value-added products that we have in MDF and plywood, so how much that is to the overall topline or volumes?

**V. Venkatramani:** Could you repeat that please?

**Karan Bhatelia:** We have some value-added products with higher realizations in MDF and plywood. So how much is the constitution to the total?

**V. Venkatramani:** Okay so if you look at the plywood business like I mentioned we are targeting about 8.8 Million square meters this year. So almost 90% of that would be the regular plywood and about 10% would be decorative veneers. And within plywood, the regular plywood would be about 70% and value-added products which primarily comprises the club grade plywood that would be about 30%.

**Karan Bhatelia:** And in MDF how is the value-added mix right now, there is a pre-laminated MDF?

**V. Venkatramani:** On the MDF side, like I mentioned we did about on the domestic side, our export are primarily the plain MDF. On the domestic side we did about 57,655 cubic meters in this quarter of which plain MDF was about 48,000 and then the value-added products. Primarily pre-laminated MDF was about 9,000 cubic meters and flooring volumes were about 680 cubic meters.

**Karan Bhatelia:** I joined a bit late so if you can repeat the savings that we had in working capital deals. If you can throw some light on that?

**V. Venkatramani:** We reduced our working capital investment if we compare the figure to the corresponding Year-on-Year quarter. So we reduced our working capital investment by 38 days as compared to the Year-on-Year quarter and about 11 days as compared to the immediately preceding quarter.

**Karan Bhatelia:** And the main reason for this was?

**V. Venkatramani:** Substantial reduction in inventories.

**Karan Bhatelia:** And sir, on tax rate how do we see that for this year and next year?

**V. Venkatramani:** It should be about 30% which would be the total tax rate on which the cash flow part that is the cash payout would be about 17.5% and deferred tax impact would be 12.5%.

**Moderator:** Thank you. The next question is from the line of Ankush Raghuvanshi, an individual investor. Please go ahead.

**Ankush R:** The question was primarily around the slowdown in the real estate environment and end user demand. What makes us when we project our growth figures, what would be the key drivers for growth given the current environment persists?

**V. Venkatramani:** The real estate environment has been subdued for the past 3, 4 years and we are not expecting any substantial improvements over FY21 and FY22. So we have realized that the only way we can improve the volumes is by expanding the distribution network and having more people on our sales team. We have achieved about 60% growth in MDF in the current year and I think we would be targeting about 30% to 32% growth in MDF in the next financial year.

**Shobhan Mittal:** I like to just add to this point. One of the silver linings of the budget was that there is a substantial increase in the import duty for furniture. So this would definitely help us a lot because it would curtail the import of readymade furniture and increase manufacturing of furniture locally, which would in turn result in a higher consumption of MDF within the country because most of the furniture makers are depended on particle board and MDF. So this would directly affect demand for MDF consumption in the country as well.

**Moderator:** The line for the participant has just dropped. We take the next question from the line of Rohan from Edelweiss. Please go ahead.

**Rohan:** Sir, Rohan again. Sir, on this MDF further, we have seen that few North place players are entering into MDF. There have been some 3 to 4 new players have tried to enter have already entered or in the process of commissioning their plants in the next 6 months. Do you see that this North market is further getting into oversupply scenario though the Century and Action plant have already been stabilized now but this new plant which are likely to come can disturb the market and how do you see the scenario in North?

**V. Venkatramani:** Yes, I have also heard that 4 or 5 new plants are going to be set up in Northern India. Although I do not have the details, but I would presume that this would be primarily small capacities.

**Rohan:** Are these capacities are in the range of 150 to 200 CBM?

**V. Venkatramani:** Yes. So that is what I meant. This should not disturb the market substantially but what primarily disturbs is their invoicing pattern where a part of the sales is not reflected in the books and because of the GST impact they have an unfair advantage over the organized players. That could possibly disturb us to some extent.

**Rohan:** Okay that may lead to some sort of pricing pressure or loss of market in North?

**V. Venkatramani:** Yes.

**Rohan:** Sir, just one last question. On this plywood business, so we have almost achieved the previous level utilization before the demerger and almost achieving that the quarterly run rate of that plywood sales. So just wanted to understand little bit strategy on the plywood. Are we in the process of going to add any sort of outsourcing opportunities in plywood business or this is going to remain at this level only?

**V. Venkatramani:** I think we still have substantial capacity of our own for the next two years. Because we would probably be operating at about 80% this year targeting about 100% next year. And at peak we could possibly get close to about 120%. So yes, I do not think we would be looking at any capacity expansions in plywood. But then if there are some other opportunities I think we could explore those in the future.

**Rohan:** So sir, even at 80% current utilization of our plywood business, we are still having a decent EBITDA margins of close to 13%. Shockingly they are much higher than the other largest competitor in plywood. So I would just wanted to understand little bit more that how your margins are in 13% and the competitor is just 7%, 8% in the very competitive scenario in plywood right now?

**V. Venkatramani:** The primary difference is ours is entirely own production so the margins on own production are substantially higher. Whereas if you look at competitors, I think they would also be having a substantial mix of outsourcing where the margins would be substantially lower.

**Rohan:** So it is mainly because of the backward integration and completely backward integrated plant which you have?

**V. Venkatramani:** Yes, sure.

**Rohan:** So sir, with the further utilization level going up, do you see that your EBITDA margins in plywood can scale up to 15% to 17% margins or what is the likely margin if you achieve 100% utilization?

**V. Venkatramani:** Not really, I do not think we would be going beyond 14% in plywood. At peak a 14% EBITDA margin would probably be our target because raw material prices have also gone up during the current year and while we have had a 13% EBITDA margin for the nine months, if we look at the EBITDA margins for the quarter, they have dropped off to about 11.5%. So I think we would probably be looking at a 13.5% to 14% EBITDA margin at those peak capacity utilization levels of about 118% to 120%.

**Rohan:** Sir, just last question from my side. Sir, you mentioned that you still have I mean you have a total debt of close to Rs. 500 crore roughly, Rs. 300 crore is Euro loan and there you see that is the main hedging cost versus I mean if you go for hedging 7% to 8% while the USD loan is still at close to 4% to 5%.

**V. Venkatramani:** It is not 4% to 5%. Like I mentioned the initial cost of the dollar loan was about 3.85% but post hedging it is currently about 7.8%.

**Rohan:** So your dollar loan is also still open, right, we do not hedge it?

**V. Venkatramani:** No, the dollar loan is fully hedged.

**Rohan:** Okay so dollar is fully hedged. And in Euro you have taken a call that the hedging cost of rather than paying 7% to 8% you want to keep it open?

**V. Venkatramani:** Yes, it does not make sense because it is a long term borrowing we would be making the repayments over a period of 10 years and the currency never depreciates by 7% annually for a continuous period of 10 years. That is why we have taken a call to keep the Euro loan open.

**Rohan:** And sir, just on this extension of this, so you definitely have a longer moratorium debt but for next couple of years or may be for next two to three years you have hardly any CAPEX of just Rs. 10 crore to Rs. 12 crore every year. The cash flow generations are going to be significant. So are you not looking at the repayment of your debt faster and over next the 2 to 3 years substantially reducing the debt?

**V. Venkatramani:** Yes, we would be looking at prepaying some of our existing debts. But we would initially be concentrating on repaying the domestic debts rather than looking to repay the Euro loan.

**Moderator:** Thank you. The next question is from the line of Mohammed Patel from Blue Banyan Advisors. Please go ahead.

**Mohammed Patel:** Sir, as you say that the major growth is going to come from the distribution expansion. So if you could help us understand how you select the distributors and how this mechanism works?

**V. Venkatramani:** We are primarily expanding into smaller towns and cities where competition is not as intense as it is in the major cities and metros. Although it does add to cost in terms of manpower increase to service the distributors in the smaller towns and cities.

But having greater distribution network also helps us substantially in keeping a tight check on working capital days. And also protecting the realizations from pressures from the larger dealers. So it has the cost in terms of greater manpower but significant benefits in terms of protecting our working capital investments and also our realizations.

**Mohammed Patel:** What is the current number of distributors that we have?

**V. Venkatramani:** We currently have about 850 distributors and dealers for the MDF business and about 270 dealers for the plywood business.

**Mohammed Patel:** So how much growth do we expect in this number?

**V. Venkatramani:** So efforts were on to increase the number by about 200 for the MDF business this year and about 100 dealers for plywood. So probably by the end of the year we will see whether we have been entirely successful in our efforts.

**Moderator:** Thank you. The next question is from the line of Shrenik from JM Financial. Please go ahead.

**Shrenik:** Can you please share the sales volume mix for north and south plants and the revenue for north and south plants?

**V. Venkatramani:** Shrenik, I got part of your question before I got disconnected. So as far as the volumes for the two plants, we had volumes of 32,006 from the north plant and 54,363 from the south plant. But I did not get the second part of your question. Could you repeat that please?

**Shrenik:** And the revenue mix of north and south?

**V. Venkatramani:** The revenue from the Uttarakhand plant was Rs. 74.80 crore and for the south plant it was Rs. 92.04 crore.

**Moderator:** Thank you. The next question is from the line of Gaurav Sood from NF Capital. Please go ahead.

**Gaurav Sood:** So sir, you talked about liquidation of your inventory in this particular quarter so could you give us an idea about the cash flows that you add for this quarter?

**V. Venkatramani:** I do not have that with me immediately. So can you give me a call tomorrow, I will have this numbers for you.

**Gaurav Sood:** Okay sir. And what are the trends in, you said that the raw material prices have gone up somewhat in this year so what are the trends out there and would you benefit from the fallen crude prices that has happened recently?

**V. Venkatramani:** Yes, we would be having benefits from the fall in crude prices for the MDF business where chemical resins, form about 35% of the cost. But as far as wood prices, the increase in wood prices has primarily happened on the plywood side and we have seen wood prices going up by about 8% to 9% from July this year.

**Gaurav Sood:** So sir, when you say in plywood, what kind of wood is used and in MDF it must be the wood pulp so the source of the two are from different?

**V. Venkatramani:** No, it is the same wood species. We use eucalyptus wood for both the plywood and MDF. Because of the difference in manufacturing process, for plywood you require, wood which has had a greater lifecycle, say about 6 to 7 years because the trunk has to be of minimum girth before it can be peeled. For MDF, since we are converting the entire wood into small chips, even trees which have had a lifecycle of about 3 years are sufficient to be consumed for MDF.

**Gaurav Sood:** So on a cubic meter basis then younger trees are cheaper than the older trees, is that so?

**V. Venkatramani:** Yes, because if farmer is selling trees for MDF consumption, he is harvesting the trees after lifecycle of about three years. So he does not have to wait for 6 years. If we look at current prices in Northern India, the prices of the eucalyptus wood which is consumed for plywood would be in the range of Rs. 5.5 to Rs. 5.75 per kg whereas for MDF the prices would be about Rs. 3.25 per kg.

**Gaurav Sood:** Okay, that is the material difference. And sir, the final question is around the overall trends in the MDF business. What is the current growth rates given that there is a slowdown in real estate? At what rate is the MDF industry growing right now and are there any new uses that are coming up for MDF now in India?

**V. Venkatramani:** We estimate that the domestic MDF business is growing at about 14% to 15% and as far as new units coming up, we have information that about 4 to 5 small units are coming up in Northern India and a big unit of Rushil Décor with capacity of approximately 240,000 cubic meters is coming up in South.

**Gaurav Sood:** So when you say sir, this new units of smaller capacity, how big they would be, less than 1 lakhs cubic meters?

**V. Venkatramani:** Yes, substantially lower. I would say somewhere between 30,000 to 45,000 cubic meters per annum.

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

**Shobhan Mittal:** We wish to thank you everyone for participating in this call and if anyone has any further questions, please feel free to email us or call Mr. Venkat. And we look forward to speaking to you again for our next quarter call. Thank you very much.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Greenpanel Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.