



## Greenpanel Industries Limited

### Q4 & FY'21 Earnings Conference Call Transcript

May 14, 2021

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 & FY'21 Earnings Conference Call of Greenpanel Limited. 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 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.

**Rishab Barar:** Good day everyone and thank you for joining us on the Greenpanel Industries Q4 & FY'2021 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 detail statement in this regard is available in the "Results Presentation" that is sent to you.

I would now like to invite Mr. Shobhan Mittal to begin 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 very much for joining us today to discuss Greenpanel's Operating and Financial Performance for Q4 FY'2021. I do hope all of you and your families are safe and well. Business has gained momentum in this quarter. Net sales were up by 69.2% year-on-year to Rs.384 crore. Gross margins were down 442 basis points year-on-year at 53.8%. EBITDA margins were up by 662 basis points due to operational leverage in both the segments, . continuous focus on reducing waste, superior product mix and cost optimization. PAT is up by 765% year-on-year to Rs.57.87 crore. Net working capital at 35 days has shown a reduction of 10-days compared to the corresponding quarter last year. Net debt has reduced by Rs.76 crores and Rs.157 crores during the quarter and FY'21 respectively and stands at Rs.376 crores as on 31<sup>st</sup> March 2021. We are targeting reduction of net debt by Rs.150 crores during FY'2022. We are not providing any guidance for financial year '22 at this point of time due to the widespread impact of COVID-19.

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

**V. Venkatramani:** Good afternoon, everyone. I thank you all for joining us to discuss the Q4 FY'21 financial performance of Greenpanel Industries. I hope that all of you and your families are safe and healthy.

In Q4 FY'21, our top line increased by 69.2% at Rs.384.36 crores compared to Rs.227.19 crores in the corresponding quarter last year. Plywood sales grew by 65.4% at Rs.82.74 crores whereas MDF sales grew by 70.3% at Rs.301.62 crores.



Plywood volumes rose by 58% at 3.05 million square metre and MDF volumes increased by 54.4% at 139,490 cubic meters.

Uttarakhand MDF operated at 96% and AP Unit operated at 105% capacity utilization with blended capacity utilization of 102% for both the plants. Plywood unit operated at 98% during the quarter.

In Q4, gross margins fell by 442 basis points year-on-year at 53.8% as compared to 58.2% in the corresponding quarter. This happened due to raw material cost increases and increased sales to the OEM segment. Gross profit grew by 56.3% at Rs.206.68 crores as compared to Rs.132.2 crores in Q4 FY'20. EBITDA margins were up by 662 basis points at 25.8% compared to 19.1% during the corresponding quarter. EBITDA in value terms grew by 127.8% at Rs.98.98 crores as compared to Rs.43.45 crores in Q4 FY'20. Profit after tax increased by 765% at Rs.57.87 crores versus Rs.6.69 crores in the corresponding quarter last year.

I will now update you on the "Performance Details for Financial Year 2021.":

During FY'2021, net sales grew by 20.5% at Rs.1,000.21 crores compared to Rs.830.33 crores in FY'20. Plywood sales were almost flat at Rs.217.10 crores compared to Rs.215.46 crores. MDF sales rose by 27.4% at Rs.783.11 crores compared to Rs.614.87 crores during FY'20. Gross margins were almost flat at 53.9% compared to 54% in FY'20. Gross margin in value terms went up by 20.1% at Rs.538.68 crores against Rs.448.48 crores in the previous year. EBITDA margins were up by 420 basis points at 20.7% compared to 16.5% in FY'20. EBITDA in value terms increased by 51% at Rs.207.40 crores against Rs.137.33 crores in FY'20. Post tax profits were up by 370% at Rs.76.17 crores as compared to Rs.16.20 crores in FY'20.

Dispatches for Plywood stood at 8.48 million units as compared to 8.51 million units with capacity utilization at 71% compared to 78% in FY'20. MDF sales volumes were up by 20.4% at 380431 cubic metre with blended capacity utilization of the two plants at 69% compared to 60% in FY'20. Our debt-to-equity ratio stands at 0.57 as on March 31, 2021 compared to 0.78 as on March 31, 2020. Net debt reduced by Rs.157 crores during the year to Rs.376 crores as on 31<sup>st</sup> March 2021.

That concludes my presentation. I would now request 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 Kedar Kailaje from Fortress Group. Please go ahead.
- Kedar Kailaje:** Sir, my first question is on the capacity. Given the capacity utilization has been strong this quarter, so are you going to increase the capacity beyond 6,60,000?
- V. Venkatramani:** No, at the moment, we are not considering any capacity expansion beyond 6,60,000 cubic metre. This is not exactly capacity expansion per se. We are adding some new machinery which will help us to remove some of the bottlenecks from production and expand the existing capacity by about 20%.
- Kedar Kailaje:** The capacity utilization can go up to 110% if I am not wrong?
- V. Venkatramani:** No, that is built into this figure of 6,60,000 cubic metre.

- Kedar Kailaje:** Second question is that since your raw material prices are increasing rapidly, so have you taken any price increase during the quarter?
- Shobhan Mittal:** Yes, we had taken two price increases during the quarter which aggregated to about 6.5% pan India except the southern zone and for the south zone we have taken a price increase of 3.5%. So that helped us to cover most of the cost increases.
- Moderator:** Thank you. The next question is from the line of Jigar Shah from ICICI Securities. Please go ahead.
- Jigar Shah:** My first question would be on south plant margins. Considering this delay in your peer plant in south and considering the anti-dumping duty and countervailing duty recommendation for imports from the different countries, and especially south is a major center business for imports, so do you see further price hike in south India and your margins increasing and going through the roof in south plant at Rushil, so can you highlight some margin part?
- Shobhan Mittal:** As of now, there is no plan of any price increases in the south of India because we have taken two subsequent price increases in the past quarter. Just to clarify, as of now, the anti-dumping and the CVD are simply findings from the commerce ministry side but they have not been implemented or approved by the finance ministry. So they are not in place at this point of time. So given the base at which things are moving, I do not foresee that we will be able to see any price increases in the current quarter. And I think there might be a slight trickle in of imports coming into the country in the immediate sort of term before these anti-dumping or CVD if positive are implemented. Keeping those in mind, we do not foresee any price increase possibility in the immediate term.
- Jigar Shah:** But if those anti-dumping duty and countervailing duty is levied, and if things improve then you will you be taking increase on the price and improve the margin or operating leverage?
- Shobhan Mittal:** See, that is all market dependent and what is the level of countervailing duty implemented. In today's market scenario, import prices are already at a high level and if countervailing is implemented and prices go up beyond our existing levels, then yes, we may consider an increase in price but at the same time, given the countervailing, there may be a possibility that imports might continue to be cheaper. So, we will have to see the market scenario before we can take a decision. It is too premature to say whether we will be able to take a price increase or not.
- Jigar Shah:** My next question would be post-COVID, there is still a huge opportunity for MDF manufacturers in terms of modular furniture segment and a lot of consumers preferring readymade furniture. So now post-COVID once things settle down, so what would be your outlook for the same, whether this demand will continue for us?
- Shobhan Mittal:** I think a lot of it is general sort of conversion towards the readymade furniture culture. COVID might have fueled it to a certain extent but this conversion has already been happening and has been in the making for some time now. So, I do not see that post-COVID when the pandemic actually settles there, there would be a sudden dip in this conversion or preference of readymade furniture. I think this is here to stay.
- Jigar Shah::** You mentioned that there will be a reduction of debt of around Rs.150 crore in FY'22. So what will be your net debt by end of FY'22 and any further reduction in FY'23?
- V. Venkatramani:** Based on our targeted debt reduction plan of Rs.150 crore in FY'22, we should have approximately about Rs.230 crore of net debt at the end of FY'22 and we will have

budgeted repayments of approximately Rs.75 crore in FY'23. Of course, depending upon cash flows we will look at reducing net debt further.

**Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

**Ashish Poddar:** Sir, my question is on the quarterly run rate now. So in Q4, we clocked about Rs.385 crore of top line. Do you think that in the coming quarter, this number is maintainable for all the four quarters and as and when the new capacity comes it will increase only? Also, on the demand side, considering the lockdown, has it impacted demand for you in the interim from the OEM or from the retail point of view?

**V. Venkatramani:** We had reasonably good performance in the month of April although it was not as good as March but it is expected that after March things do slowdown a bit in April. So we had a reasonably good performance in April, but because of the lockdown in vast areas of the country, we are expecting that Q1 numbers will be substantially impacted. Like Shobhan ji mentioned that we are not giving any guidance for FY'22 at this point of time because we don't really know what will be the impact of COVID, whether it will extend beyond Q1 and whether it will have a significant impact on Q2 numbers. In normal circumstances, yes, we can expect to achieve that number we did in Q4. And with capacity expansion expected in Q3, we could possibly surpass those numbers in Q4 FY'22. But everything will depend on what kind of impact COVID has on the economy and how much of an extended slowdown it has on the economy.

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

**Achal Lohade:** Wanted to understand in terms of the raw material cost inflation, so can you give us some sense in terms of the key raw material, what has been the price, the cost inflation actually in the fourth quarter on a YoY basis? You did mention that the price increase what we have taken is kind of offsetting the entire cost inflation, but just wanted to understand fourth quarter would have been the each of the key raw material cost inflation, also, how it has trended in the month of April, May?

**V. Venkatramani:** Although I am not able to give you accurate figure for the raw material increases in Q4 specifically, I would imagine they would have gone up by about 5% in that quarter and prior to that we had almost 5% increase in prices of key raw materials both timber and resin during Q2 and Q3 as well. So overall raw material cost had gone up by about 10% last year. And with the price increases that we took, we were almost able to cover the raw material cost impact, although not to the full extent, I estimate that we had a gap of about 100 basis points. And in the current quarter also, there have been some raw material price increases specifically on the chemical side. So we have gone for another price increase of 4% in April, although the actual impact will be from the beginning of May. And going forward also, depending upon market conditions, we hope that we will be able to take further price increases for any further increase in raw material prices.

**Achal Lohade:** And these are pertaining to MDF or the company as a whole sir?

**V. Venkatramani:** Primarily on the MDF side. On the plywood side, we have not had any major impact in raw materials. There was probably a 2% raw material cost increase during the year and we had taken a price increase of 2.5% in July. So that helped us to counter that.

**Achal Lohade:** Has there been further price increase after July sir on the plywood side?

**V. Venkatramani:** Not on the plywood side.

**Achal Lohade:** Is there any plan to take any price increase in the current quarter?

**V. Venkatramani:** Yes, we are planning a price increase in plywood but whether it will be implemented from May or June, that's something we will be deciding depending upon market conditions.

**Achal Lohade:** Would you be okay to disclose what kind of price increase we are probably looking in?

**V. Venkatramani:** Somewhere in the range of 3%-4%.

**Achal Lohade:** In terms of the Plywood business, are we going to look at any outsourcing or are we going to stick to just whatever capacity we have, we will stick to that much revenue as such?

**V. Venkatramani:** On the Plywood side, at optimum capacity utilization we can possibly target revenues of Rs.350 crores. So at the moment, we are not considering any expansion in Plywood.

**Achal Lohade:** Is there any scope for expansion in the same facility?

**V. Venkatramani:** I don't think we have sufficient space at the Uttarakhand plant for any further Plywood expansion.

**Achal Lohade:** Could you please talk about how is the export, what has been the mix, what is the export realization, how it has changed and how do you see it playing out over next couple of years? If you see that if export mix substantially comes down, will domestic challenge be more?

**V. Venkatramani:** I think yes, that is the plan in the future. If we look at FY'21, our total exports were approximately 83,000 cubic metre. Although we could have done a further quantum of another 30,000 cubic metre because we had orders in hand but could not execute those orders due to non-availability of containers and ships. So, at the moment, we are targeting say approximately 1,20,000 cubic metre of exports in FY'22 and possibly I think we should be somewhere close to that number in FY'23 also.

**Achal Lohade:** What is the margin typically for the exports compared to domestic?

**V. Venkatramani:** If you look at last year, we would have had a margin of approximately 10% on exports but prices are increasing in the international markets. So looking at future prices, I think yes, we can have a margin of about 14% on export front.

**Achal Lohade:** How about EBITDA margins for domestic sir for FY'21?

**V. Venkatramani:** For the full year, we had a margin of 23% blended for domestic and exports, although margin was pretty low in the first couple of quarters due to the impact of COVID. And we had a margin of approximately 28% in Q4 for the MDF business for domestic and exports put together. So, I would possibly look at domestic margin of 30% if we are able to operate at optimum capacity utilization.

**Achal Lohade:** What is the mix for us in terms of a) the retail and b) OEM?

**V. Venkatramani:** If we look at the mix between retail and OEM, retail would be approximately 65% and OEM would be about 35% and the mix between thick and thin is 70:30.

**Achal Lohade:** With respect to the geographical mix in terms of MDF domestic volume sir?

**V. Venkatramani:** I do not have the exact numbers. Achal, I will get back to you during the course of this evening.

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

**Sneha Talreja:** Sir, my first set of question will be related to southern market. Have we started seeing any supplies from Rushil coming in on any kind of price drop because of that if at all you can highlight that parameter?

**Shobhan Mittal:** At the moment, no such thing has happened.

**Sneha Talreja:** No new supplies coming in?

**Shobhan Mittal:** No.

**Sneha Talreja:** Also sir, my second question would be related to OEM. So, we were trying to increase the share of Pre-Laminated portion. Could you quantify where are we right now, where do we plan to take this forward because I think we are targeting somewhere about 100% to 150% margin expansion because of this value addition, if you can give some color on that?

**V. Venkatramani:** Pre-laminated MDF was approximately 12% in Q4. So if we look at previous quarter, there has been a significant increase in Pre-lam volumes. We would have done an average of about 10,000 cubic metre in the first three quarters and we did about 14,000 cubic metre in Q4. But then the quantity of Plain MDF has also been increasing because of higher capacity utilization. So on a percentage basis, there has not been any significant increase in Pre-lam volumes but going ahead, we are also in the process of installing treater machine at Andhra plant which will enable us to do a faster turnaround of pre-laminated production at Andhra. So, I think we could look at a substantial expansion in Pre-lam volumes this year compared to last year.

**Sneha Talreja:** The reason I am asking this question is if I am not wrong, there are many smaller players in India who are actually importing MDF and Pre-laminating and selling it in India. Could you actually quantify such market size and what is an opportunity for us here?

**Shobhan Mittal:** Actually, you are correct where you say that there is a lot of people importing MDF, but I don't think we are competing with those people because the quality of product that they are supplying especially the paper is not a segment that we are competing in a larger manner, we have a cheaper range of product that we try to cater to that segment; however, that is a very small percentage for us. So, I would say that the segment that the organized players play in the Pre-lam sort of market and the OEMs that we cater to with that is not really competing with that particular unorganized segment but the people are importing and putting local Indian paper on it.

**Sneha Talreja:** This is mainly related to the current demand scenario. As you rightly said that you are actually more into the OEM segment where 35% demand coming in. What is the direct impact that you are seeing on the retail? We understand the impact would be more on the retail because there is a lockdown situation, but what is happening on

the demand at OEM, can you give some quantifiable picture on that versus Q2, how are we doing right now?

**V. Venkatramani:** As far as the OEM segment is concerned, during the month of April, it was slightly lower than the month of March like I mentioned in March OEM segment was about 35%, so it was 33% in April and if we look at May, I would say it is probably around a similar number. But then we have seen a substantial dip in volumes in the month of May. And we have had only 13-days of operation. So I think I will probably be able to give you a better idea by the end of the month.

**Sneha Talreja:** So, it is nothing like that OEMs are performing where retail market is not?

**V. Venkatramani:** No, no, I would say more or less the same both on retail and OEM side. We are seeing a dip in volumes on both the sides and almost of similar proportion.

**Moderator:** Thank you. The next question is from the line of Dushyant Mehta from SageOne Investment. Please go ahead.

**Dushyant Mehta:** What percentage of this growth came from just import coming into India and how much do you think is sustainable over the long-term, how many clients have you acquired this quarter that were first-time clients or people who wouldn't normally buy from you?

**Shobhan Mittal:** I think in the past couple of quarters there has been a substantial import substitution and a lot of it is also on account of the pandemic where supplies from foreign countries have been subdued and freight across has been a challenge, but at the same time if you look at the international market now, demand for MDF has substantially gone up and prices being made in foreign countries is I would say almost at par with the domestic realization that we have here. So, when circumstances like this happen, when India by default becomes the least sort of preferred market because the realizations for exporters are much lower in India compared to the other lucrative markets. So this has always been the case historically with the import model that when capacities are lower, demand is high, supply is lower, then India does tend to get neglected in this manner. So yes, there has been substantial increase but at the same time we are also expecting and hopeful that if government is favorable towards the implementation of the restrictions, then we will see the situation for the long-term where imports will become more expensive to come to India.

**Dushyant Mehta:** Just a question on your realizations. Could you split that up in the northern versus the southern market?

**V. Venkatramani:** The domestic realizations for the Uttarakhand plant, I will give you the Q4 numbers, were Rs.25,480 per cubic metre and for the Andhra plant were 21,124 cubic metre, but two reasons for that; one, we have two products in Uttarakhand which are high value items, one is veneered MDF and the second is flooring MDF. Now, veneered MDF sells at a premium of about 40% as compared to the Plain MDF. And flooring MDF sells at almost 300% as compared to the Plain MDF. So if we exclude these two products, then I think there would be about a 5% premium at the northern plant as compared to the southern plant.

**Shobhan Mittal:** Also, to add to that for everyone, because the Andhra plant is much larger in capacity, the Pre-Laminated and the component in north as a percentage is much higher compared to the one in the south. So that would also be a higher cubic metre realization in the north compared to the south.

- Moderator:** Thank you. The next question is from the line of Sameer Shah from Valuequest. Please go ahead.
- Sameer Shah:** Two questions; one is demand/supply scenario that we have and operating at 100%-plus utilization, why are we kind of not thinking of expansion?
- Shobhan Mittal:** I think the company has at the moment two very distinct objectives in mind; a) we want to reduce the debt on our books in this current financial year; b) we also foresee that at the moment if you see we are allocating about 10,000-12,000 cubic meters of production from the south plant to the export market, we are also allocating a fair amount of material to the OEM segment which is obviously lesser in realization. So we foresee that over the next one, one and a half years there is still a lot of scope to maximize margins and profitability from our existing production by improving the product mix, by selling to the more profitable customers, at the same time allowing us to reduce the debt also. I think there is still a lot more scope from the existing capacity before we start thinking about additional capacities and more capital expenditure.
- Sameer Shah:** Whenever we decide to look for further expansion, what is the status of the land, etc., what would be the lead time, from the time you decide to put up a capacity?
- Shobhan Mittal:** As a thumb rule, I think from the point of conception to executing a first board under normal circumstances, I would say it is a period of 24-months. I mean, of course, if we consider the future going forward to expand in Andhra Pradesh itself, then obviously land is abundantly available because we have a very large piece of land which was already planned for future expansion. However, if and when we decide to expand may not necessarily be in the south, it could be another location. That would be dependent on the market conditions, it would be dependent on raw material availability. So it would be a bit premature to answer your question on land. But again, about the timeframe, I think two year is a fair sort of thumb rule to consider from the point of conception to executing the first board out of the plant.
- Sameer Shah:** Second, what you just mentioned in terms of a lot of scope for improvement in terms of realization depending on the mix, are there improvement of possible mix? Is it safe to say that even without this anti-dumping duty benefit, etc., margins can go up to 30%?
- Shobhan Mittal:** I think we would not like to comment on that as of now because market conditions, international prices are not in our control at this point of time. So, I think it would not be a fair comment to say that it can or cannot go up. Anti-dumping has been in place for the past seven to ten years; however, certain countries or certain companies have been out of the purview of anti-dumping. So, it is not that imports have not been coming in, they have been very much coming in, in fact, they have been increasing over the past five, seven years. So, it is very sort of hard to say what the government's new policy decided on anti-dumping and countervailing duty and how the market conditions would react. There are a lot of factors in play here.
- V. Venkatramani:** Adding to Shobhan ji's comments, I would like to state that if we are operating at optimum volumes and selling the entire production in the domestic market, we could possibly target EBITDA margin of 30%.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

**Madhav Marda:** There is a capacity expansion of 20% which you all have put in the presentation. Just wanted to understand what will be the CAPEX first for expanding the MDF capacity and obviously this will be a Brownfield one?

**V. Venkatramani:** We will be incurring approximately Rs.25 crores for that brownfield expansion. It's not really an expansion strictly in that term. We are adding some machinery which will remove some of the bottlenecks from the existing process and enable us to expand the capacity. We expect this additional capacity to be available to us from Q3 of the current year.

**Madhav Marda:** With that our capacity would go close to 6,60,000 cubic metre, right?

**V. Venkatramani:** Yes, approximately 6,50,000 - 6,60,000, cubic meters.

**Shobhan Mittal:** It is important to highlight that 20% number capacity expansion is also product mix dependent. So that is also dependent on the thicknesses that we get from the market. So it's not a blanket 20% across the entire product range. It would be dependent on the product mix orders that we receive.

**Madhav Marda:** Second question was our plants are running at close to peak utilization right now. If I think about the MDF industry in India the domestic plant in Q4, would you have a sense in terms of what utilization this plant would be at, at the industry level?

**Shobhan Mittal:** One of the larger players, Action, unfortunately, the data is not available publicly since it's a private company; however, as far as our understanding goes, all the larger players like Century, Action, had all very good sort of high percentage utilizations in the past quarter.

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

**Siddharth Mehta:** The question is for Mr. Shobhan Mittal. I understand that you are going to pay down some of the debt. But given the rapid rise that we are having in the company, given the rapid increase that seems to be there for the demand for MDF, is it better to perhaps do an expansion instead of paying down debt? And secondly, I wanted to know something about the value added products that the company is selling, in which ways you are adding value and what percentage of your sales tend to be value added?

**Shobhan Mittal:** The idea that we have at the moment given the current cash flows and the reason that we are not expanding on an immediate basis because there is still possibility of better optimization of our existing capacities and improving margins and profitability over the next one, one and a half year. So we are of the opinion that we should pay down the debt because the cash flows are comfortable and it allows us to do so, number one. B), it would bring down our debt-to-equity ratio to a very sustainable level. And at the same time, put us in a comfortable position whenever we choose to sort of engage into a capacity expansion, we would have a very healthy financial situation that would allow us to sort of expand. So, we have always maintained that we engage into a substantial capacity expansion with the Andhra plant and the management's objective was always that for the first two to three years we will reduce the debt load on the company. On your question about the value added products, the company currently offers laminated flooring which is produced in Rudrapur, apart from that of course within the Plain MDF gamlet we have, the high grade Club grade MDF that we produce and then we also produce top grade MDF and we also produce exterior grade MDF. So these are generally higher grade, higher density MDF with more waterproof sort of properties built into them which are

sold at a higher price point. And then also pre-laminated MDF which is a Plain MDF coated with a decorative paper is what we sell as a value added product as well. And like Venkat mentioned, Pre-Laminated MDF is at the moment about 12-13% of our entire capacities. And if I talk about the other categories where we talk about Club and Exterior grade, etc., I think that would be close to 25% to 30%.

**V. Venkatramani:** So the entire basket of value added products, including Pre-Laminated, veneered, MDF, flooring MDF and within the Plain category, Club and Exterior grade MDF, all this account for approximately 35% in volume terms and about 46% in value terms.

**Siddharth Mehta:** So from what I understand from the answer to the first part of my question was that you are looking for slight expansion due to debottlenecking and other processes but you are not seeing such a vast increase in demand that there should be need to set up another bigger expansion, is my understanding correct?

**V. Venkatramani:** Like I mentioned, our focus is to have the optimum utilization from the existing capacities and also reduce the debt substantially to derisk the company before we go for another substantial expansion.

**Siddharth Mehta:** Cost optimization efforts and your cost reduction efforts, those have really shown up?

**V. Venkatramani:** Achieving the optimum volume, the optimum product mix, the optimum customer mix. Because once you get into expansion mode, part of the focus gets diverted from these requirements. So, we would prefer to have the optimum mix from the existing capacities before we go in for another expansion.

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

**Karan Bhatelia:** Sir, in Q2 and Q3, we had seen a lot of unavailability of containers and also the cost of container was pretty high for our export, import. So what is the current scenario, can you throw some light on that?

**Shobhan Mittal:** We are not so dependent on import sir. So, I think where containers come into the picture is primarily for our export business. So, yes, availability previously has been a concern, prices have been quite inflated, but things have improved on the cost front. Availability of certain sizes continues to be a challenge for certain ports, but overall the situation has much more improved than the Q3 and Q4 of last year.

**Karan Bhatelia:** Thirty five days on working capital sustainable going ahead, because you will be having double digits in terms of growth. So is this number sustainable going ahead as well?

**V. Venkatramani:** Yes, it's sustainable and something which is part of the ethos of the company. We always work to convert our profits into cash and that can be done only if we keep a close watch on the working capital situation. We want value added sales and we want those sales to get converted into cash at the earliest opportunity.

**Moderator:** Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

**Hasmukh Gala:** A couple of questions from my side; first question is because of this lockdown conditions, etc., are we able to operate our plants at full capacity utilization now matching it whatever is the demand?

- V. Venkatramani:** We are not facing any issues at the plant so we can continue to operate the plants at full capacity. But definitely we are facing some challenges in procurement of orders. So if the order situation improves, we are definitely capable of operating the plant at full capacity.
- Hasmukh Gala:** In the full year out of Rs.1,000 crore turnover, how much was domestic and how much was export?
- V. Venkatramani:** Our business can be split into two parts. So on the Plywood wood, the entire business was domestic, approximately Rs.217 crore and of the MDF business of Rs.783 crore, Rs.663 crore came from the domestic and Rs.120 crore from export.
- Moderator:** Thank you. The next question is from the line of Abhishek from RK Securities. Please go ahead.
- Abhishek:** A question on the sales side. What is our value proposition to retail end customers vis-à-vis competitive edge, is it price, is it supply chain, is it quality, is it distribution?
- Shobhan Mittal:** Being currently the player with the largest installed capacity in the country, with entire production being produced out of the European manufacturing line, I think we are in a very unique position where serviceability from our plants is the fastest to our customers which allows them to reduce their inventory sort of carrying requirement, etc., I think it's very safe to say that we are at par or even superior to our competitors we like to think in terms of quality, of course, we offer a very good quality product. MDF at the end of the day is a commodity product. So what we can sort of try to get in is a competitive edge on serviceability, the quality of the product and more importantly aftersales service which we are able to provide through our sort of expansive network of sales team and our dealer base.
- Abhishek:** So, in turn you count on your dealers and it is basically the push that you get from the dealers, right, so it is not the individual end customer that you target for more sales rather it's serviceability towards your dealers, right?
- Shobhan Mittal:** We do transit our end consumers towards demand generation we are providing, that service to our dealers because demand generation end of the day ends up being the company's responsibility, of course, the dealers are a very important part of the whole machine but at the same time the company's people are very much engaged quickly and consumers to generate enquiries and service their needs.
- Moderator:** Thank you. The next question is from the line of Venkat Samala from Tata Asset Management. Please go ahead.
- Venkat Samala:** First thing I just wanted to understand is what has been your experience with respect to MDF when the anti-dumping duty was imposed by the government on the thick MDF. So if you could just answer in terms of the realization improvement that you would have seen in the markets specifically for thick MDF and also if there was any impact or improvement for the domestic players with respect to volumes?
- V. Venkatramani:** Anti-dumping duty has not yet been implemented. It has been recommended by the commerce ministry and currently it is under the consideration of the finance ministry.
- Shobhan Mittal:** I think he is talking about this historically.
- V. Venkatramani:** But then anti-dumping duty was imposed approximately five years back and while there has been some positive impact, I won't say it was a very substantial element, primarily because in the first phase countries like Indonesia and Vietnam were not

covered under the ambit of anti-dumping duty and even after they were covered in the second phase, there were quite a few manufacturers from certain countries who are not covered by ADD. So, while it has had some positive benefits, it has not really conferred the kind of benefits that the domestic industry was looking forward to.

**Venkat Samala:** So your expectation with respect to the current anti-dumping duty and CVD, would that be similar, not expecting too much as a base case if it goes through?

**V. Venkatramani:** It would depend upon the percentage of those duties. So while CVD would definitely be more favorable than anti-dumping duty primarily because it will be across all products both Plain and Pre-Laminated MDF, both thin MDF and thick MDF and across all countries from Southeast Asia who are currently exporting to India. So definitely CVD would be more positive than ADD, but then it would depend upon the quantum of CVD and ADD which is implemented by the government. So considering the proposals which the commerce ministry has recommended to the finance ministry, those are quite favorable from what the situation was previously. But now it would depend entirely on how the finance ministry goes about it.

**Venkat Samala:** As I understand this looks to be a little more favorable as compared to the one that was previously imposed on the thick MDF?

**Shobhan Mittal:** The coverage of this is more sort of expansive and it will refrain a lot more products and companies to bring into India compared to the anti-dumping policy that was in place.

**Venkat Samala:** The traction that you are seeing especially on the foreign markets, are you able to see an increase in the export volume QoQ over Q4?

**Shobhan Mittal:** Yes, the export demand has gone up substantially, pricing on the export side has also gone up substantially but as a company the domestic market continues to be a priority because we are a lot more competitive domestically than we are in the export market and at the same time profitability in the domestic market tends to be generally high for us because of the transportation involved in the export market and the competition in the export market. So as a company, consciously we choose to allocate only a certain percentage of our production capacity to the export market even though the demand is much higher than we are willing to supply. Unless the domestic situation changes drastically, we will continue to be in a sort of similar supply situation with the export market as a company. But the international market has drastically gone up, prices have gone up, everything is on the uptrend.

**Venkat Samala:** The margin that you saw in the current quarter for MDF of 28% versus 24-25%. You did allude to some initiatives being taken and some CAPEX also for improving the card. So are some of those initiatives that you have spoken about already in place which has led to improvement of margins or do you think that most of them are still to happen and that could incrementally further add up to margin whenever it takes place?

**V. Venkatramani:** The capital expenditure has started in Q4, that's currently in process and is expected to be completed by September, October this year. So, part of the capex relates to additional machinery for expanding the capacity. That will not have any positive impact on the margins apart from some minor benefits on the absorption of fixed overhead. And the second part of the capex is installation of some additional machinery which will help us to reduce the wax consumption by approximately 30-35%. So that benefit will possibly be available from Q4 this year.

- Moderator:** Thank you. The next question is from the line of Saurabh Agarwal from Bowhead Capital. Please go ahead.
- Gaurav:** Hi, sir, my name is Gaurav. Sir, on the capacity expansion just wanted to get a few clarity. So this enhancement of capacity which we are talking about, this will be majorly in both the plants in Uttarakhand as well as Andhra?
- Shobhan Mittal:** Both pre-heating system as well as the wax consumption reduction system will be installed at both the plants.
- Gaurav:** This is specific to your plants which are European machinery or this can be done to other players?
- Shobhan Mittal:** The capacity expansion system would be application to the continuous plants, not to the multi-opening plants.
- Moderator:** Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.
- Susmit Patodia:** First question is if you can speak a little bit about your raw material what we are doing there to get a better raw material availability compared to the industry considering that you are the largest India player? My second question is you had availed moratorium. Did it change the cost of debt for you because of that?
- V. Venkatramani:** We have constraints as far as taking steps on improving the availability of raw material primarily where wood is concerned. In India land cost is prohibitive in most places and that acts as a constraint in purchasing large plots of land and having our own plantation. So we don't have the financial muscle for that. What we are doing is we are planting the saplings in our plant and providing them to farmers within a radius of 100 to 150 Kms. So we are providing the sapling to farmers at our cost basically which means that they are able to procure it from us at 50% of the sapling cost in the market. So that is a step we are taking to improve the availability of raw materials primarily wood. And wood constitutes almost 65% of the raw material cost in MDF, approximately 80% in plywood. Definitely a key raw material but we are able to take only small steps to improve the availability of both. To your second question, we do not have to incur any substantial cost for the moratorium on borrowing. We paid approximately ₹2,000 to the German bank for the amendment agreement.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.
- Chirag Lodaya:** If you can just help us with the plant wise utilization and margin for Q4 and FY'21 for south and north and in south if you can just further break it up into export and domestic?
- V. Venkatramani:** We had a capacity utilization of 96% at the Uttarakhand plant and 105% for the Andhra plant which leads to 102% blended capacity in MDF. As far as the domestic realizations are concerned, for MDF in north plant was 25,480 per cubic metre for the south plant it was 21,124 per cubic metre and during the fourth quarter exports were approximately 17,900 cubic metre at an average realization of Rs.14,747.
- Moderator:** Thank you. The next question is from the line of Balaji Vaidyanath from NAFA Asset Management. Please go ahead.
- Balaji Vaidyanath:** The last year when we had the lockdown, there was migration of labor, etc., So this time of course there is no national lockdown, almost the entire country is at some

sort of lockdown. So are we also facing labor issues because although 75% of the south plant consist of locals, there is still 20%, 30% non-locals who may have gone back to their villages, etc., is that an issue that you are facing?

**V. Venkatramani:** On the MDF side, we don't have much requirement of labor, entire process is automated right from the time the wood enters the chipper machine to the final product rolling out from the hot press. So, on the plywood side, yes, labour requirement is significant but most of the labourers live in the labour colony which is adjacent to the plant and we have not seen any migration of the labour force happening during the current year. So at the moment we are not facing any labour issue.

**Moderator:** Thank you. The next question is from the line of Tarun Arora from Safe Enterprises. Please go ahead.

**Tarun Arora:** First question is regarding the industry capacity expansion if you can give some idea as to at what rate do you expect the capacity of the industry to grow on the MDF side over next couple of years, has anything changed after a bumper Q4 for all the players and keeping in mind the pandemic situation? My second question is regarding the value added products that you spoke about, volumes contributing 35% share and you also mentioned that MDF as a category is quite commoditized. So, in that context, I wanted to understand do we have any differentiated products wherein we get better pricing where the competition does not have those products?

**V. Venkatramani:** I'll take the first part of the question then Shobhan Ji can take the question regarding value-added products. So as far as expansion in the MDF industry is concerned, I think the only capacity which you'll see operational during the current year is Rushil's capacity in southern India, that was expected to be operational in March, but that has got delayed since the German engineers have returned to their home country. So at the moment, it's difficult to predict when the engineers will come back and Rushil's plant will be fully operational and then I think the next capacity which would be online sometime next year could be Century's brownfield expansion in Punjab. I think apart from those we should not see any major capacity expansions happening in FY'22 and '23.

**Shobhan Mittal:** With relation to the value-added product, the only product that is unique to us although it's a very small quantity would be veneered MDF primarily because we are in a sort of unique situation where we produce MDF in the same plant where we also produce decorative veneers. But apart from that all the other value-added products flooring is offered by us as well as action and the other grades of MDF and pre-laminated MDF they're probably available with all the manufacturers. So there is not too many sort of differentiating products available in the MDF segment itself.

**Moderator:** Thank you. The next question is from the line of Shashank Jain from Kotak Securities. Please go ahead.

**Shashank Jain:** Sir, my question was actually related to one of the alternatives for raw materials. We understand that in certain countries such as US, they have started using raw materials such as rice straw for MDF. So I wanted to know your opinion and if our company is exploring such opportunities in the near future instead of looking at eucalyptus?

**Shobhan Mittal:** No rice straw is not used for MDF but it is more used for production of particle boards. As far as my understanding and knowledge goes, the only place where an alternative form of raw material is being used to produce MDF is in Egypt where there is a plant, on a very small scale that produces MDF made out of bagasse and that model unfortunately has been very unsuccessful in India, there was a company called Bajaj

Hindustan who had entered into production of MDF using bagasse, but it was unfortunately unsuccessful to be a profitable venture and shut down. So MDF because of the nature of the product and because of the fiber that is required, there are not many alternate sort of raw material options.

**Moderator:** Thank you. The next question is from the line of Nirali Ketan Gopani from Unique Asset Management. Please go ahead.

**Nirali K Gopani:** What you have mentioned, if we don't plan capacity expansion say in the next one, one and a half years, our sales might reach a stagnancy for the next two years. So just wanted to understand your view on the same?

**V. Venkatramani:** We had sales of approximately Rs.780 crores during the current financial year, and with the expanded capacity which is expected to be operational by Q3 this year, we could potentially reach MDF sales of Rs. 1,650 crores from the existing capacity post expansion. So that gives us a lot of room for achieving sales growth over the next two to three years. So I think a very large expansion is not really a requirement at this point of time.

**Moderator:** Thank you. The next question is from the line of Sunil Shah from Turtle Star Portfolio Managers. Please go ahead.

**Sunil Shah:** My question is from the potential for MDF. So this largely is the customers preferences moving towards ready-made furniture or buying it from companies like Ikea, etc., then is it a threat for MDF overall over the next three years or maybe even a longer period, could you give me some understanding on that?

**Shobhan Mittal:** The reason why we have seen a lot of conversion happening from the plywood side is also because of the acceptance of ready-made furniture which indirectly increases acceptance of MDF. So this is definitely a very big opportunity and Ikea where a lot of the model is basically of knock-down furniture, sometimes build it yourself or sometimes an installer comes where people are more exposed to the materials being used and when they see and they start using and then they realize that MDF is very much an acceptable product and it's a long-lasting and not inferior to plywood which is apprehension at the moment, then definitely the acceptance of MDF in general would increase and even applications where they may consider using plywood, it would be easier to convince because cost in MDF is obviously far lower than compared to a good quality plywood. So, definitely machine-made furniture manufacturing is a huge opportunity for MDF.

**Moderator:** Thank you. Ladies and gentlemen we take the last question from the line of Karthik Bhat, an individual investor. Please go ahead.

**Karthik Bhat:** In last quarter call, you had mentioned that one of the drivers in India was for furniture exports to markets like Europe, US and all and that has also generated demand for MDF. So how sustainable is this? What elements are driving this -- is it cost, quality or what is it if you can throw some color on it? I believe in terms of realization domestic versus exports, is there any difference that we see?

**Shobhan Mittal:** With the sanctions on China primarily from the US and of course, a lot of the manufacturing which was originally happening in China has moved to other countries, India has definitely benefited from that. The government is strongly pushing an increase of furniture production locally. This is primarily due to two reasons; a), a lot of the ready-made furniture coming into India is currently imported and the government realizes the importance of furniture being made locally because it will help preserve the foreign exchange reserves and provide growth to the

domestic industry. And by default when furniture manufacturing is done locally, it opens up export possibilities as well. Today, the unfortunate situation in India is that furniture is being made locally but it is not being sold locally, a lot of it is being exported. And these purchasers based in the US or in Europe who were buying from China are now focusing on India as a country to source from. When you when you talk about the margins you're talking about the MDF price locally as opposed to internationally? Like I said earlier, domestic prices are definitely more lucrative and higher profits for us, hence our focus continues to be on the domestic market because internationally it's a commoditized product and a lot of players are involved. Here, we have the benefit of producing locally a market size that's available for our entire capacity as well as lower transportation costs whereas if we start selling to the Middle East which is a very large sort of primary export market for us, then you have other competitors like Malaysia, Indonesia and Thailand, competition is higher and pricing is sort of more competitive and strained.

**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:** So thank you everyone for joining this call and we look forward to speaking to you again post our next quarter results. If anyone has any further questions or queries, do feel free to let us know and we'll be happy to answer them. Thank you so much and please be safe, everyone.

**V. Venkatramani:** Thank you.

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