



Greenpanel Industries Limited

Q3 & 9 Months FY23 Earnings Conference Call Transcript

January 31, 2023

Rishab Barar: Good day everyone and thank you for joining us on the Greenpanel Industries' Q3 and 9 months FY23 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 may be forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation that 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: Good afternoon, everyone and thank you for joining us to discuss Greenpanel's operating and financial performance for Q3 FY2023. We had revenue growth of 3.2% in MDF, degrowth of 14% in plywood, and overall revenue growth was flat. MDF export volumes grew 24%, domestic volumes were down by 7% and overall MDF volumes were down by 2%. MDF gross margins improved by 123 basis points and plywood gross margins fell by 237 basis points while overall gross margins increased by 115 basis points to 58.2%. EBITDA margins, adjusted for forex loss and gain, were down by 319 basis points quarter on quarter at 23% due to lower domestic volumes in MDF, reduction in MDF export realization, and fall in plywood volumes.

Post tax profits were lower by 40% due to fall in EBITDA and currency losses of Rs. 17.29 crore. Net working capital at 23 days has shown a reduction of 1 day quarter on quarter. Net debt has reduced by Rs. 86 crore during the quarter and stands at negative Rs. 145 crore as on 31st of December 2022. We paid Rs. 8 crore towards MDF expansion project during Q3 FY23 aggregating to Rs. 39 crore during the year to date.

We are pleased to announce that Greenpanel will be principal sponsors of Delhi Capitals in the IPL Cricket Tournament for the next 3 years starting from the current calendar year 2023. This will significantly enhance Greenpanel's brand visibility. We would also be principal sponsors for Pretoria Capitals for their SA T-20 league.

Mr. Venkatramani will now run you through the financials in greater detail post which we will have a question & answer session.

V. Venkatramani: Good afternoon, everyone and thank you for joining us to discuss the Q3FY23 Financial Performance of Greenpanel Industries.

Net sales during quarter 3 was Rs. 419.10 crore compared to Rs. 417.43 crore during the year-on-year quarter. MDF sales grew by 3.2% at Rs. 361.57 crore and contributed 86% of the top line. MDF export volumes grew by 24% at 25,410 cubic



meters, domestic volumes were down 7% at 92,809 cubic meters and overall MDF volumes were down by 2% at 1,18,218 cubic meters. MDF domestic revenue was Rs. 314.20 crore while exports contributed Rs. 47.37 crore. Domestic realizations were up by 10.5% at Rs. 33,854 per cubic meter while export realizations were lower by 11.4% at Rs. 18,643 per cubic meter. Blended MDF realizations were up by 5.4% at Rs. 30,585 per cubic meter.

Uttarakhand MDF operated at 81% and AP plant operated at 73% with blended capacity utilization at 76% on enhanced capacity of 6,60,000 cubic meters.

Plywood sales had a degrowth of 14.2% at Rs. 57.53 crore. Plywood sales volumes were lower by 19.4% at 1.99 million square meters and the unit operated at 66% during the quarter. Plywood sales realizations were up by 6.3% at Rs. 289 per square meter.

In Q3 FY23, gross margin increased by 115 basis points year on year at 58.2%. Gross profit increased by 2.4% at Rs. 243.84 crore. EBITDA margins adjusted for forex loss/gain were down by 383 basis points at 23% due to fall in MDF domestic volumes, reduction in export realizations and fall in plywood volumes.

MDF export realizations were lower by 20% quarter on quarter due to price cuts of 12% and 8% due to change in terms (FOB) with new customer. EBITDA adjusted for forex stood at Rs. 96.50 crore due to the reasons mentioned by Mr. Mittal. PAT was lower by 40% due to fall in EBITDA and currency loss of Rs. 17.29 crore.

I will now update you on the performance details for the year-to-date:

Net sales grew by 18.9% at Rs. 1,337.97 crore and MDF sales increased by 22.2% at Rs. 1,148.56 crore while plywood sales grew by 2.1% at Rs. 189.41 crore. Gross margins were up by 290 basis points at 59.5%. Gross margin in value terms was up by 24.9% at Rs. 796.21 crore. EBITDA margin adjusted for forex loss/gain was flat at 26.3%. EBITDA in value terms adjusted for forex loss/gain increased by 19% at Rs. 351.41 crore. Post tax profits were up by 17% at Rs. 187.59 crore. Overall MDF sales volumes were 3,69,479 cubic meters with blended capacity utilization of the two plants at 77% of enhanced capacity compared to 90% in the year-on-year period. Dispatches for plywood were lower by 4.2% at 6.55 million square meters with capacity utilization at 74% compared to 80% in the corresponding period.

Gross debt to equity now stands at 0.17 as on 31st of December 2022 compared to 0.31 as on 31st of December 2021. Net debt reduced during the 9 months' period to negative Rs. 145 crore as on 31st of December 2022.

That concludes my presentation. Please open the floor for the Q&A session.

- Moderator:** We will now begin the question & answer session. We have our first question from the line of Sandesh Barmecha from Haitong Securities India Pvt. Ltd. Please go ahead.
- Sandesh Barmecha:** What is the reason for muted demand scenario for the December quarter? And has the scenario improved in January 2023?
- V. Venkatramani:** We wouldn't say that the demand scenario is muted. Demand continues to be reasonably good. Just that imports have increased significantly during the quarter which has had an impact on our domestic volumes. So, yes, as far as the near term is concerned, I think we will see pressure on domestic volumes. So, we are increasing the targets for export volumes.

- Sandesh Barmecha:** What would be the reason for the sharp increase in our interest expenses despite our debt going down? And what is the reason for other income also going down sharply on a quarter-on-quarter basis?
- V. Venkatramani:** The reasons for both are due to currency losses. Both dollar and Euro appreciated significantly during the quarter versus the rupee. In aggregate, we had currency losses of Rs. 17.22 crore during the quarter of which Rs. 8.45 crore was above EBITDA and Rs. 8.77 crore is included in the finance cost. There were forex gains during the first 2 quarters of the current year. And since we had significant currency losses in the 3rd quarter, the currency gains of the first 2 quarters were reversed. That's the reason you see a negative Other Income for the 3rd quarter.
- Sandesh Barmecha:** How much CAPEX has been done in 9 months FY23 and what will be the outlook for FY23, FY24, and FY25?
- V. Venkatramani:** The total planned outlay is Rs. 600 crore of which we expect to spend about 10% in FY23, about 80% in FY24, and the balance 10% in FY25.
- Moderator:** We have our next question from the line of Harsh Shah from Dalal & Broacha Stock Broking. Please go ahead.
- Harsh Shah:** A couple of questions from my side; firstly, on the imports. I believe that the December volume has come down a bit compared to the previous months. What would you attribute this slowdown in imports to? And has the downward trend even continued in January?
- V. Venkatramani:** It is very difficult to state how imports will behave because that will depend upon developments in the international markets. The reason why imports have increased during the past 6 months is primarily because there has been a slowdown in furniture demand in the US and Europe and the countries like Vietnam and Indonesia which were exporting furniture to those countries have been impacted. So, now, instead of furniture, they are exporting the bare MDF boards. It will, to some extent, depend on how far the demand improves in those countries and also how crude and shipping rates behave. All these factors will influence imports. So, it is very difficult to say how imports will behave over the next 12 to 18 months, but we are increasing the focus on the export markets with the anticipation that imports will continue to be of similar volumes for the next couple of quarters. While our focus on the domestic market continues to remain strong, we are also increasing the focus on the export markets.
- Harsh Shah:** Secondly, any sort of volume at the company level operating margin guidance for FY24 and FY25?
- V. Venkatramani:** As far as FY24 is concerned, we would be looking at volume growth of 10% to 12% and margins around 23% to 25%. And we would not like to give any guidance for FY25 now because that is quite distant at this point of time. We will probably look at that maybe after the first half of FY24 is completed.
- Moderator:** We have our next question from the line of Achal Lohade from JM Financial Institutional Securities Pvt. Ltd. Please go ahead.
- Achal Lohade:** Sir, can you clarify about the impairment or the investment write-off? What has driven this, any particular event? And are there any more write-offs which are expected?
- V. Venkatramani:** No, it's a one-time write-off. There will not be any future write-offs. Primarily, we started the export business when the Uttarakhand unit was in operation. I think we started exports around 2014 or 2015. And at that time, the export volume was very low because domestic freight costs from the Uttarakhand plant to Mumbai port were very significant. It was almost 25% of the selling price. So, at that time, we were doing

very low volumes, primarily to maintain our presence in the export markets because we knew we would require those markets when the Andhra unit started operations. But we were maintaining the infrastructure of the export sales team at Singapore. Since the export volumes were very low, the losses were heavy in the initial years. The situation had improved post the commencement of the Andhra plant. I think we have had profits for the Singapore subsidiary over the past 2 years. But the view is, now with export realizations coming down, we would not see any significant improvement in profits of the Singapore subsidiary. Hence, we decided to take an impairment on the investment in the Singapore subsidiary, which is related to the past losses.

Achal Lohade: I am a bit confused here. You are saying you are going to increase the focus on the exports, at the same time, you are saying you are not seeing it is profitable and hence write-off. Can you please just help me understand?

V. Venkatramani: The reason why we are increasing our focus on exports in the near term is primarily because of the increase in imports in the domestic market. That's the reason we are increasing the focus on exports, primarily to have a better capacity utilization of our existing plants. But the reason we have taken the impairment is because our view is that while the volume of exports will increase, it will not be a very profitable operation and we do not see a significant reversal of the past losses of the Singapore subsidiary over the next couple of years. That's why we decided to take the impairment hit.

Achal Lohade: You are saying the past losses have got basically written off now in terms of the impairment?

V. Venkatramani: It was already reflected in the accounts as far as the consolidated accounts were concerned. The impairment is reflected only in the stand-alone accounts.

Achal Lohade: Is there any tax benefit of this, by any chance?

V. Venkatramani: There might be. I would not like to comment on that currently, but I believe, yes, there could be some tax benefit provided we get the RBI approval for the write-off.

Achal Lohade: My next question was in terms of the domestic market, while we have seen a decline of 7%, how has the domestic industry growth been according to you for the quarter? And in terms of import volume, what is the mix? I presume it will be more in the South market. How much of the South market at present is catered by imports?

V. Venkatramani: Significant part of the volumes is coming to the southern markets. I would say at least 70% of the volumes are coming to the South market. And I think markets are still growing at a good pace because while imports in this quarter were to the tune of about 50,000 cubic meters, we have seen only an impact of 7,000 cubic meters on our domestic volumes. So, I think that the market continues to grow and it continues to replace the cheap plywood segment. But yes, in the short term, imports have taken some market share away from domestic manufacturers.

Achal Lohade: Of the South market, how much would be imports?

V. Venkatramani: Somewhere between 70% to 80% and the balance would be western India.

Achal Lohade: In terms of the total domestic size of the southern market, of that, how much is imports?

V. Venkatramani: Approximately, 45% of India's volumes come from southern India. As of FY22, I believe the volume was around 1.8 million cubic meters. So, 45% of that would be about 8 lakh cubic meters. And looking at the current run rate, you can say about 2

lakh cubic meters is coming from imports. So, roughly 25% of the southern market is being catered to by imports.

- Achal Lohade:** Any number you can talk about in terms of the price difference between our selling price in the South versus the imports of the thick and thin MDF in both the segments please?
- V. Venkatramani:** The price difference currently would be about 25% between our pricing and import pricing.
- Achal Lohade:** In both categories, sir?
- V. Venkatramani:** Yes, in both thick and thin categories.
- Shobhan Mittal:** I would like to add something to this, though. This pricing difference what Mr. Venkat is mentioning is when an importer is bringing the material directly to his warehouse at the port location. The moment a larger importer in turn is trying to sell it further to smaller retailers or transport it further inland, then the cost obviously gets inflated and the pricing difference gets reduced.
- Achal Lohade:** How much would that impact be? Let's say if he were to do in option 2?
- Shobhan Mittal:** Depending on the distance of the transportation and also his margins, I would say it would add another 5% to 7% to that.
- Achal Lohade:** Any development or any thoughts on the anti-dumping duty? If the industry represented? Is the government evaluating anything?
- Shobhan Mittal:** It is ongoing. Previously, what had happened was that the Commerce Ministry had recommended the implementation of anti-dumping, but unfortunately, the Finance Ministry had not passed a decision. And there is a rule which said that if you don't have a final decision from the Finance Ministry within 90 days, hence it's deemed to be rejected. However, multiple industries have approached the High Court, us including, where we have requested that a decision be taken. And the High Court has suggested that the Finance Ministry has to take a decision; it cannot be silent on this. The matter is at that stage. We are still hopeful that a decision would come and hopefully a positive decision would come in this matter.
- Moderator:** We have our next question from the line of Karan Bhatelia from Asian Market Securities Pvt. Ltd. Please go ahead.
- Karan Bhatelia:** Sir, how are the margins in the domestic market versus that of the export market and how have that shaped in the last 1 year?
- V. Venkatramani:** I would say the margins that you see in the MDF segment are entirely from the domestic markets. Considering the steep fall in export realizations, export margins are probably in low single digits right now.
- Karan Bhatelia:** Our general sense suggests that competition has resorted to price decline even in the 3rd quarter while the industry leaders have not gone for a price decline in the domestic market. Till when can we hold on to the domestic pricing since the delta you mentioned is about 20%?
- V. Venkatramani:** We would like to maintain the prices as long as possible. I am not suggesting that we would be maintaining the prices if the volume of imports doubles or goes up significantly beyond that. Our efforts would be to maintain the pricing at the current levels provided the volume of imports remains stable or comes down, but if the

imports continue to rise significantly in the future or any other development happens due to the competition intensity, we might be forced to take a relook at prices. But currently, we continue to hold on to our prices because the difference between our prices and imports is so significant, taking minor price cuts would not, really contribute to any improvement in volume.

Karan Bhatelia: That was helpful. And we will be shifting to the new tax regime anytime soon?

V. Venkatramani: Yes. I think probably we will be shifting to the new tax regime from FY24.

Moderator: Thank you. We have our next question from the line of Nikhil Gada from Abakkus Asset Manager LLP. Please go ahead.

Nikhil Gada: Sir, when you mentioned that we are now focusing more on the exports market in terms of driving volumes, and while you mentioned that, margins were like low single digits in exports, we see currently the share of exports is close to 21%, 22% of the overall mix. How much higher will this go in the quest for better volumes that you are suggesting?

V. Venkatramani: See, it's very difficult to give a breakup between domestic and exports for the next financial year because that would also depend on how imports continue to behave in future. So, as always, our primary focus will be on the domestic market, but for the interim period when the volumes of the imports are high, we will increase our focus on the export markets.

Nikhil Gada: And just a follow up on this. In exports, we are not selling any of our value-added products, right? We are largely selling plain MDF.

V. Venkatramani: That's correct. I would say almost 98% comes from the plain MDF.

Nikhil Gada: So, then in this regard to the margin front, can you help us understand if you can break this up that we were at 30% EBITDA margin in 1Q, 2Q, 30% plus, and we have gone down to close to 25%, 26%. So, there is a 4% fall, while the gross margins still look to be positive, we have seen an improvement. So, how much would it be because of lower utilization because the mix of exports still remain the same if I see 1Q, 2Q, 3Q, it was still at 21, 21 odd percent. So, are we trying to say that there was such a sharp fall in the export margin from 2Q to 3Q that has driven this? Or is there something?

V. Venkatramani: Yes. That's correct. Like I mentioned, there has been a 12% price cut in exports in the current quarter. So, when the overall margins were around 30%, domestic margins were around 34% and export margins were around 18%. That's how we got that mix of 30%. So, while domestic margins continues to be maintained at close to this level although there has been some impact because of higher power costs because of increase in rates by State Electricity Boards. So, domestic margins continue to be good, but yes, due to the 12% price cut, export margins have taken a big hit.

Moderator: Thank you. We have our next question from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay: My first question is related to the utilization. Can you give the north and the south plant utilization?

V. Venkatramani: Yes. So, during this quarter north plant operated at 81% and south plant operated at 73%. And blended capacity utilization was 76%.

Praveen Sahay: So, just on the export side, realization on the sequential basis if I look at it's down 18%, 19%. Sir, do you see this realization to go down further from here?

V. Venkatramani: It's difficult to forecast, you know, because, again, countries to which we export have also been impacted by higher volumes coming from countries like Thailand, Indonesia, and Vietnam because of reduction in furniture demand. So, yes, we have seen competition intensity increasing in the export markets also. At this point of time, yes, I think we will continue to say that, you know, while our primary focus will be on the domestic market, we will continue, we will increase focus on the export markets currently.

Praveen Sahay: So, basically, we are still above, pre-COVID level of the realization. So, do you believe we will go back to that level?

V. Venkatramani: It's a very difficult question to answer. Like I mentioned, as far as domestic realizations are concerned, those continue to remain stable, and we will continue to hold on to those realizations, because we believe that any price cut would not contribute significantly in volume terms.

Moderator: Thank you. We have our next question from the line of Udit Gajiwala from Yes Securities. Please go ahead.

Udit Gajiwala: Sir, firstly, like we mentioned multiple times, we are focusing on exports. And given that, domestic is impacted largely due to imports coming in, so what do you think that Q4 FY23 numbers would look like in volume terms?

V. Venkatramani: At the moment we are targeting somewhere between 1,35,000 to 1,40,000 cubic meters in Q4 FY23.

Udit Gajiwala: And sir, on like 10% to 12% is the volume growth that you have said and 23% to 25% margin is for blended or only for MDF?

V. Venkatramani: Only for MDF.

Udit Gajiwala: And in previous question, you said that in exports we are facing competitive intensity. So, what would be the price difference in those markets in our product versus...?

V. Venkatramani: There would not be any price difference in the export markets. We would be exporting at similar prices that manufacturers from countries like Thailand, Vietnam, Indonesia etc.

Udit Gajiwala: And sir, any further price cuts we have taken for those markets specifically since Q4?

V. Venkatramani: No, we have not taken any price cuts in general.

Udit Gajiwala: And, what would be our big debt in the gross level if we see for next say 24 and 25?

V. Venkatramani: So, at the end of 31st December 2022, gross debts were about 195 crore. And I think we are repaying approximately about 45 to 50 crore per annum.

Moderator: Thank you. We have our next question from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: I just want to understand one thing. The import which was, 10% cheaper a quarter ago now 25% cheaper. So, what is leading to that import prices are going down? Is it that the competitors pricing, raw material pricings have reduced in their region or they are selling at a lower margin?

Shobhan Mittal: No, I don't think this is a function of raw material prices. It's a function of demand and supply purely. So, basically, when the lucrative markets for these countries, the demand is mellow, then they would start supplying to the markets that they can find an outlet to. You know, it's a very similar model honestly to what we do as on export as well when the domestic market for us is lukewarm or the demand is not keeping up, then we would like to utilize capacity by supplying to the export market at international pricing.

Keshav Lahoti: Is it a fair understanding the imports coming from Vietnam, Indonesia, some players are also making a single digit margin? The imports coming from Vietnam and Indonesia, so such players are also making single digit margin. Is it a fair understanding?

Shobhan Mittal: Absolutely, yes.

Keshav Lahoti: And how do you value-added mix and volume terms and value for this quarter?

V. Venkatramani: In volume terms mix of value-added products was 51%, and in value terms it was 62%. 51% and 62%.

Moderator: Thank you. We have our next question from the line of Jignesh Kamani from Goldfish Capital Advisors Pvt. Ltd. Please go ahead.

Jignesh Kamani: Just on the imports side, is it MDF segment or do you think the value-added segment, both volume and the margin is also getting impacted on account of imports?

V. Venkatramani: The value-added segment is not impacted by imports.

Shobhan Mittal: No, there is not much imports coming into the value-added segment.

Jignesh Kamani: But people are recording their MDF and then doing value-added separately, unorganized player or do you think that they continue to remain with large players and this volume...?

Shobhan Mittal: So, a lot of the imports are actually coming from the point of value addition only. So, large format OEMs who have short cycles etc., or large format policy makers are the ones who are importing in large volumes because, like I said earlier, that imports coming in, being imported by an individual and then further selling it then makes it uncompetitive as well for them. So, where imports are competitive or let's say substantially priced lower in price costing, these large-format consumers are able to buy in bulk and are consuming at their own end by adding and consuming for value addition.

Jignesh Kamani: Understood. So, if you take about our volume decline in domestic market is more on the low end, you can say, bare segment or we are seeing the value-added volume also decline in this quarter?

Shobhan Mittal: No, only the bare segment.

- V. Venkatramani:** See, our value-added products ratio continues to be stable or has seen an improvement both year-on-year and quarter-on-year. So, whatever hits we have taken there has been on the plain industrial MDF segment.
- Jignesh Kamani:** Understood. And on the anti-dumping duty, you mentioned that now you can say heading is going for again the Finance Ministry and Commerce Ministry timeline has been less. So, any clarity by when we will hear anything on the anti-dumping duty whether it is passed or no? Or is there any timeline or it will continue to hang for a long time?
- V. Venkatramani:** No, we don't have any timelines on this as of now.
- Jignesh Kamani:** Understood. And on the demand side, whenever the US, Europe demand improve, do you think that Vietnam and Indonesian players will again go back to this market and dumping in India will reduce? Or do you think it will remain a structural problem going forward?
- V. Venkatramani:** No, no, it will definitely reduce, because they are not making any margins by selling MDF to India. So, as soon as the furniture demand starts to pick up in those countries, they will reduce MDF exports and concentrate on value-added exports.
- Jignesh Kamani:** Understood. And we will see that multiple new capacities will come on the scene by the various competitors six months to one year down the line. And we have also seen that import is going to now coming big. In that case, how will be the pricing in the margin will over because now everybody will focus on the, utilizing capacity or people will try to focus on the reasonable profitability and wont' mind, you can say, compromising volume?
- V. Venkatramani:** See, I don't think we will see any significant increase in the capacity happening in the next financial year. So, I think, you know, probably a majority of those capacities will come in the last quarter of FY24 or the first half of FY25. So, that's the reason, I think, we see that demand will continue to be stable and we will not see any significant impact on realizations in FY24.
- Moderator:** Thank you. We have our next question from the line of Abhishek Gautam from Alpha Invesco Research Services Ltd. Please go ahead.
- Abhishek Gautam:** Our current MDF market domestically is roughly around 4,500 crores. So, out of that how much would be B2C and how much will be the OEM? And for us also, how would that split look like? Just some ballpark color.
- V. Venkatramani:** I won't be able to give you numbers for the industry as a whole, because some parts of the industry are unorganized, some are unlisted entity. Hence, I do not have numbers for the industry as a whole. But if you look at our mix, approximately 88% of our volumes comes from the dealer segment and about 12% from the OEM segment.
- Abhishek Getam:** And also, when this lot of capacities come online, so is the bigger picture that a lot of the capacities will move to supply towards OEM players or it will be both markets, I mean, through dealers and OEMs both mixture? Or is it like panel-based furniture sales improve in India and most of it is absorbed by the OEM players?
- V. Venkatramani:** Yes. I think correct. New capacities will focus on all three segments of the market, but I think yes, initial focus will be on the OEMs because they can give you large volumes in short period of time, that building the network will take couple of years because dealers typically will start with low volumes and then scale up over a period

of time. So, yes, the immediate focus for new capacities will be the OEM segment and the export markets.

Abhishek Gautam: So, on the timber supplier, timber pricing, it's challenges is that in the north, timber prices may start coming down from Q4 onwards in north, and in south the plantations are still lagging. So, we still might see a spike in timber. So, how much is that of correct? And how would that impact us?

V. Venkatramani: See, as far as the south is concerned, I don't think plantations is lagging, because we ourselves have provided almost about 12 million saplings during the last 10 months to farmers for plantation. So, I don't think the plantations is lagging in the south, and as far as price behavior in the north is concerned, I think yes, prices are probably close to peak, but I'm not able to give you any immediate reply on whether we see prices coming down in Q4.

Moderator: Thank you. We have our next question from the line of Parth Bhavsar from Investec Capital Services (India) Pvt. Ltd. Please go ahead.

Parth Bhavsar: Sir, just I didn't catch exports and domestic volume numbers. So, can you help me with that?

V. Venkatramani: For the current quarter?

Parth Bhavsar: Q3FY23. Yes.

V. Venkatramani: The total volume for this quarter was 1,18,218. Domestic contributed 92,809 and exports contributed 25,409.

Parth Bhavsar: Sir, when we guide that, we make 25% EBITDA margins and you have also said that you would be focusing on exports going ahead over the next few months or quarters. So, do we factor lower EBITDA margins for domestic, for exports when we say 25%?

V. Venkatramani: Yes. Obviously, export margins will be lower than the blended figure of 23% to 25%. So, while we may not see any significant improvement in domestic margins, increase in capacity utilization will probably provide that leverage to maintain or improve the margin.

Parth Bhavsar: And currently, you see the imports trend going down because we don't see a freight cost going down. So, we expect it to continue for some time now.

V. Venkatramani: Like we mentioned that is difficult to focus how imports will behave over the next 12 months, you know, because it is also linked to our three different factors. Yes, I agree with you that we can't predict the import volumes at this point of time.

Moderator: Thank you. We have our next question from the line of Senthilkumar from Joindre Capital Services. Please go ahead.

Senthilkumar: I have a couple of questions. First one is, may I know what is the company's rationale being the sponsors for South Africa T20 League? Is South Africa big export market for the company? Because I just wanted to understand the opportunity. Thanks for that.

Shobhan Mittal: No, actually, let's say, this was a bonus that came along with the package of the sponsorship of the Delhi Capitals deal. We did not seek this out independently, but

it was part of the package because Pretoria Capitals is owned by The Delhi Capitals team.

Senthilkumar: And my second question is, can you give a breakup of MDF volume in terms of domestic and exports for the nine months of this year and previous year? Nine-month volume?

V. Venkatramani: So, domestic volumes were 2,90,731 for the current nine months. And for last year nine months it was 2,70,696.

Senthilkumar: Exports?

V. Venkatramani: And exports current year 78,747. Last year, 99,807.

Moderator: Thank you. We have our next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Sir, just a general question, like I had spoken to some carpenters and I got to know that like they are kind of reluctant to use the MDF because they say that they need machines to use that, to cut it into parts and making plywood where they can do it normally. So, like Greenpanel our company as the market leader, what is it, is it taking any steps to solve this problem and improve the adaptability?

Shobhan Mittal: Yes. You know, we are always promoting among carpenter insights. That is one of our biggest marketing activity, training and education of the carpenter segment. We are holding Carpenter Meets across the country on a very regular basis. Basically, teaching them how this can be adapted. You know, instead of using a hand saw, all they need is a rotary saw. And instead of using a hammer, they need a screwdriver. Those are the, let's say, the principal differences. At the same time educating the carpenters of the benefits of MDF where turnaround time is much faster if you use a prelaminated MDF as opposed to plywood where they have to stick a laminate and wait for three days for it to dry, the prelaminated MDF reduces that time drastically. So, they are able to take on more projects and increase their own income. So, this is also an on going exercise and if you see many areas the carpenters had very well warmed up to the idea and have adapted MDF as a preferred material. It's a slow process, but it's obviously, it's ongoing.

Nikhil Agrawal: And I just wanted a clarification answer. In January, have the imports started slowing down a bit in the last 10 days or in the middle of January or something?

Shobhan Mittal: We don't yet have the data for January. So, we don't want to comment on that yet till we have the confirmed data.

Nikhil Agrawal: And sir, just one last question. I wanted to know if it's possible for you to disclose the advertisement cost for the IPL branding that you have signed?

Shobhan Mittal: We prefer not to disclose this in this forum.

Moderator: Thank you. We have our next question from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: I had one basic question, sir. I wanted to understand the CAPEX which you talked about earlier of 600 crore. Where are we spending this? In which capacity are we increasing? Just wanted to know that. That is my first question.



Shobhan Mittal: This is being spent purely on the new MDF line that we are installing as a brownfield expansion in our Andhra Pradesh site in Srikalahasti. So, we are adding another 28-meter press with the capacity of about 230000 cubic meters.

Miraj: And my second question would be, seeing the demand scenario currently, the market scenario that we are being in fluxed with imports. Would you have any thoughts on revisiting the idea for CAPEX? Or are you still going ahead with it?

Shobhan Mittal: No, you see, I mean, what we would like to do is that by the time this new line comes on, which will be in the middle of FY25, we would like to be at full capacity in both our existing lines. One other thing, of course, which is a silver lining is that this new line that we are setting up would primarily be focused on, it's specialized to produce thin MDF. And today, our Andhra facility is not well equipped to produce thin MDF. In fact, certain products which are very important, we don't produce at all. So, the idea would be both for export and domestic markets to specialize or focus on producing thin MDF on the new line and continue producing thick MDF on the current line in order to enhance efficiency within the plant. So, we will be able to enter the product segment which we are currently not really strongly existing in the south of India.

Miraj: And would there be any other players in the thin MDF side or how is the scenario on thin MDF side? Currently, it would be, the prospects would be looking good right now?

Shobhan Mittal: Sure. I mean, for example, today, pretty much all producers including us in the north are producing thin MDF. Rushil is producing some thin MDF in the south of India. Imports are coming in a big way. So, thin MDF is a very prominent, I would say 30% to 35% of the total MDF market consists of thin MDF category.

Moderator: Thank you. We have our next question from the line of Hasmukh Vishariya from Star Union Daichi Life Insurance. Please go ahead.

Hasmukh Vishariya: Two question from my side. So, firstly, you mentioned about low single-digit margins for players of Vietnam and Indonesia. So, is it fair to assume that, let's say, decline in import realizations will be capped at this level, at the level of basically these guys are able to make positive margins?

Shobhan Mittal: You mean to say for the importers or for the companies that are exporting to India?

Hasmukh Vishariya: Yes.

Shobhan Mittal: Well, see, a lot of it boils down to their own raw material cost as well as their currency against the dollar. But, I mean, if I look at the historical numbers, I will say, we are already at like rock bottom level with the import pricing.

Hasmukh Vishariya: So, that means import realizations or import prices will not go down much from this level.

Shobhan Mittal: Unless we have a very strong depreciation of the currency against the dollar, I don't foresee that happening.

Hasmukh Vishariya: So, the gap between our prices and their will not, let's say, move from 25% much now?

Shobhan Mittal: Will not widen further, yes.

- Hasmukh Vishariya:** Secondly, just a bookkeeping question. From the presentation, let's say, on slide 30, if I look at your graph of annual demand, so that is 9.3% CAGR from, let's say, FY21 to 22 in terms of demand revenue. And if I look at slide number 33, there you have given 20%, 25% production capacity expansion. So, how these two number, let's say, matches or it is an error or something?
- Shobhan Mittal:** Could you mention the slide numbers, the first one was?
- Hasmukh Visharia:** Slide number 29 of the presentation where you have given the size of the MDF market from Rs. 3,200 crore to Rs. 5,000 and second is the Slide #32 where you have written that further it is accepted to witness CAGR of 20-25% for the period from 21 to 26 in terms of capacity expansion?
- Shobhan Mittal:** I will just check off that and revert. Please give me a call on Thursday or Friday.
- Moderator:** Thank you. We have our next question from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.
- Ashish Kumar:** I had one question in relation to the industry, there are two plants which are expected to become operational, one in this quarter essentially and another one in the first quarter of FY24, do you think that can put pressure on the domestic margins or how do you see that scenario playing itself out or do you believe the demand is robust enough to take care of it?
- Shobhan Mittal:** I don't see that there will be any substantial price reduction especially on account of new capacities coming in because I think all domestic producers have learned the hard way that reduction of pricing is not the solution to increase volumes and if you look at the past couple of years, you must have noticed that there had been no significant price reduction even in times of demand pressure or surplus supplies which is also the prevailing situation today. So, I don't see a challenge in terms of margins reducing, yes, there will be a case for market share happening, but I don't see a challenge for realization dropping.
- Ashish Kumar:** Yes, but when it comes to the price for market share, then you would see other things like your dealer commissions or your dealer incentives in terms of working capital can go up, do you see that as the risk or do you see that the growth is still 15-20% because the two capacities together will probably add around 15% odd to the industry capacity, do you see that can get absorbed?
- Shobhan Mittal:** I don't see that would be a challenge, I think we will be okay. We won't foresee that to be a challenge in terms of margins today.
- Ashish Kumar:** And second thing is in terms of the fact that now the export prices have kind of other import markets have opened up and export prices come down, do you see some of the unorganized sectors still wanted to get into MDF or do you see them kind of taking a little bit of a back seat?
- V. Venkatramani:** Unorganized sector has a significant share in terms of capacity, but in terms of market shares, they have a much lower share, so I think they will continue to exist in the current form, I would say probably the market share is around 15-16%, but we don't expect to see any significant increase in the market share in future.
- Ashish Kumar:** So, you are saying that the new plants which were potentially coming up, new plants may not come over the next 1 to 2 years?

- V. Venkatramani:** Yes, the major expansions are happening on the side of the organized players.
- Moderator:** Thank you. We have our next question from the line of Shubham Thorat from Perpetual Investment Advisors. Please go ahead.
- Shubham Thorat:** I had couple of questions, before that just one clarification, you have mentioned that the imports are largely from plain MDF side and there not be value-added segment, so can you give the reasoning for that why is it so?
- V. Venkatramani:** I can't tell you what the reason is, it could possibly be because of the fact that they do not produce much of the value-added products, so even you look in India, there are some manufacturers who have a very low share of the value-added segment, so I can't give any reason why that is so, but if you look at our share of value-added products, it continue to remain stable this year, so it was about 49% in volume terms and 60% in value terms in Q1, 50 and 61% in Q2 and 51 and 62% in Q3, so the fact that we have been able to maintain a share of value-added products gives strength to the argument that imports are not focusing on the value-added segment because OEMs do not purchase much of the value-added products, they primarily focus on the plain industrial products. So, if you want to sell more of the value-added products, you have to have a deep penetration in the dealer network, so that is probably the reason why imports are focused primarily on the plain industrial MDF.
- Shubham Thorat:** And my first question would be, you had mentioned that your primary focus will be on increasing the domestic volumes, so how do you plan onto maintain this current domestic volumes or if not to increase in the light of increased imports and the price differential from our pricing point of view?
- V. Venkatramani:** So, we are taking some steps to reduce the impacts of imports, I would not like to clarify at this point of time what those steps are, but we are taking steps to increase our focus on the domestic markets.
- Shubham Thorat:** And my last question would be, if you can give some clarity on what was the raw material pricing scenario in Q3 and how is it behaving in the Q4 as we are already a month past in the Q4?
- V. Venkatramani:** In quarter 3, wood prices were quite stable and we had seen some reduction in the resin side. In January, we had seen some increase in the resin prices, but we will have to look at the next couple of quarters to understand whether it is for the short term or the medium term or the long term. Since it has been there for just a few days from about 15 days in this month, so we will have to look at the future before I can give a realistic idea of how raw material prices will behave in future.
- Moderator:** Thank you. We have our next question from the line of Senthilnathan KR from NAFA Capital Group. Please go ahead.
- Senthilnathan KR:** Sir, how our working capital days will be going forward because when we start focusing more on the exports incrementally? Will it be same or will it be increasing slightly?
- V. Venkatramani:** No, it won't increase, because we focus on working capital whether it is the domestic segment or the export markets, so we continue to remain focused on the working capital days, so we do not extent any additional credit, whether it be the domestic markets or the export markets.
- Senthilnathan KR:** And next question is how much is our dealer network as of last quarter and vis-a-vis last year?

- V. Venkatramani:** I have not checked the figures of this quarter, so I will probably give you that number after the March quarter.
- Senthilnathan KR:** Just wanted to understand on the FOREX part, is it arising because of our FOREX loan or it is also because of our exports revenue as well, we are booking the invoice and then when we are receiving it we are booking the currency loss or currency gain?
- V. Venkatramani:** Yes, it is the mix of both, so the major part of it is happening because of the foreign currency borrowing. If you look at, I think it is note number 3 of the results, we have given the data for Forex losses on the international currency borrowings, but that is not the entire part of the forex losses, so we have also had some losses on account of exports or imports or even against buyer credits taken against machinery imports which we had done for the expansion last year.
- Moderator:** Thank you. We have our next question from the line of Arun Baid from ICICI Securities. Please go ahead.
- Arun Baid:** Just one clarification, like from our strategy perspective, do we think that branding and distribution is the key going ahead from our perspective to counter the imports?
- Shobhan Mittal:** Going forward, that will definitely make the difference, when we move away from the commodity segment to a branded segment, that will, if you see how plywood has panned out historically, although imports of plywood is abundantly available since it has been de-commoditized and become a branded product segment, imports are not really a prevailing threat. So, going forward, we see a lot of value in creating brand for this because so far we have been trying to educate the people about the category, but I think now we are at the position where people are fairly aware of what MDF is and it will be a good time to enter into this activity of creating a brand and de-commoditizing our product from the others.
- Arun Baid:** And just one more clarification, somewhere in the call, I heard that your guidance for next year in the margin front is 20-25%, which looks a bit low because even in this quarter, when your domestic volumes degrew and exports grew significantly, I am talking about the quarter, your margins were 25.6%, am I missing something or that is the way we are looking?
- Shobhan Mittal:** I think we will be somewhere in the range of 25 to 26% going forward as well. We should be able to maintain that.
- Moderator:** Thank you. We have our next question from the line of Dhiral Shah from Phillip Capital (India) Pvt. Ltd. Please go ahead.
- Dhiral Shah:** Sir, if you can quantify how much degrowth we have seen in the low-end industrial grade MDF segment that you have talked about earlier?
- V. Venkatramani:** See, our share of value-added product has been stable, so whatever degrowth has happened that has happened in the industrial segment only.
- Dhiral Shah:** So, entire degrowth has come from the industrial segment?
- V. Venkatramani:** Yes.
- Dhiral Shah:** And sir, what is the sense on the import that will it remain at the current level or will it increase looking at the stable demand scenario at least in India?

- V. Venkatramani:** It is difficult to give a reply because it is dependent on I would say mix of three factors, how furniture demand improves in US and Europe, international freight prices, crude price movements, so it is the mix of various factors. It is difficult to give a view on how imports will behave in the short, medium or long term.
- Dhiral Shah:** And sir, last is, what is the rationale for the 12% price cut in the export segment, is it due to the fall in the raw material environment or is it the function of low demand scenario?
- V. Venkatramani:** No, it is basically we have to match the prices with exporters from Thailand, Vietnam and Indonesia with whom we are competing in the international markets.
- Dhiral Shah:** Sir, for imports, if players from Thailand, Indonesia, Vietnam they are selling at a cheaper price, so what is benefiting them, sir?
- Shobhan Mittal:** No, we are talking here that we have to match prices in the markets we are exporting to with the prices of suppliers from Thailand, Malaysia to those factories as well. So, as you see, overall export international market pricing has gone down. It is the same thing that you see in India as well where imports have become cheaper, the same thing is happening for the UAE markets, for other Middle East countries and we have to be comparative with them, hence the reduction in our export pricing.
- Moderator:** Thank you. We have our next question from the line of Hena from DAM Capital. Please go ahead.
- Hena:** I just wanted to understand on the MDF OEM side, especially in the South and West to that extent and most OEMs or consumers in the coastal regions, do they just happily shift between domestic and imports just because the cost make sense or are there sufficient OEMs or consumers in the South that we have a fighting chance?
- Shobhan Mittal:** It is purely a function of pricing especially for the large format OEMs, however, there are certain OEMs who are using value-added products and there are certain OEMs whose consumption may not be to the tune where exports is let us say, they are happier to pay a premium for a domestic product as opposed to going through the process of importing in large volumes having LC facilities, having the risk of foreign exchange fluctuations, so there is a mix, however, the large format OEMs which are big consumers are obviously very price conscious and the choice between domestic and exports has easily swayed based on the pricing difference.
- Hena:** So, as a percentage, how much would smaller OEMs or the more value-added OEMs be?
- Shobhan Mittal:** It is harsh to put a number to that, but, I would say, almost 60-70% of OEMs fall in that large format category because you see the other challenge we have in tracking this is when it is smaller sized OEMs, our company may not necessarily service them directly, but route the sales through our dealer network and we don't have that secondary sales data from the dealer network. So, that will reflect in our regular retail sales.
- Moderator:** Thank you. We have our next question from the line of Dipanshu from Shivanssh Holdings LLP. Please go ahead.
- Dipanshu:** Sir, congratulations for the results. I just wanted to understand in your initial commentary, you mentioned that you would be focusing on about 1.35 to 1.4 lakhs CDM for the fourth quarter, so are we trying to say that this full year would be on muted growth after 5% kind of?

V. Venkatramani: Yes, that is correct.

Dipanshu: And in that case, how do you see FY24 panning out with all these imports coming out, do we plan to do our double digit volume growth?

V. Venkatramani: Yes, we are looking at double-digit volume growth in FY24.

Dipanshu: Sir, I also wanted to understand on that bit EBITDA margins coming down comparatively because of imports, so how do we see, are we trying to rethink about our entire expansion plan of Rs. 600 crore because already almost payback period.....

Shobhan Mittal: As I pointed before, we are not going to rethink that. As I mentioned earlier that we like to be at full capacity at both our existing production facilities by the time this comes online in the middle of FY25. Also, as I mentioned that with this product, we will be able to cater to a segment where we are currently not very prevalent in which is thin MDF segment, so that would allow us to take a market share at a much faster pace because we are currently not very strong in that segment as a company.

Dipanshu: One of the another question what I have on the current situation, so as we are participating in IPL, we are trying to go towards say higher amount of advertisement expenditure, in your last concall, you mentioned that you would be increasing your advertisement etc., about say 2-2.5%, so do you see this benefiting us in our value-added products and are you increasing the product mix over there, are you increasing more SKUs in your value-added product?

Shobhan Mittal: We have recently launched a few value-added products, we launched Fire Retardant MDF, but the whole objective was this branding exercise like I mentioned earlier as well is to also basically try to de-commoditize our company and our products from the competition and create a brand recall where across all product segments there can be a premium that can be commanded based on the brand recall and the brand value, hence the activity of enhancing the brand value is being undertaken, so we feel that not just all value-added products, but across all products we will get some benefit from this spending.

Moderator: Thank you. We have a follow-up question from the line of Jignesh Kamani from Goldfish Capital Advisors Pvt. Ltd. Please go ahead.

Jignesh Kamani: On the notes, you mentioned that close to Rs. 60 to Rs. 65 crore of power and other subsidy was supposed to receive from the State government; however, we had not received and hence we have not booked, any reason why status not can say provided despite the approval from the state?

Shobhan Mittal: Are you talking about the subsidy here?

Jignesh Kamani: Yes, so in the notes-to-account you mentioned that close to Rs. 50-65 crore subsidy was approved by the state, but you have not received it yet and hence we are not provided, so why we have not received despite the approval from the state?

Shobhan Mittal: Basically, there are two stages of the subsidies. We are entitled to receive to the tune of Rs. 60-Rs. 65 crores like you said, however, that is firstly divided into two parts, one is the capital subsidy on account of the new investments we have made and the other is the electricity subsidy which the State government has promised us at the rate of Re. 1 per unit. Out of this, part of the capital subsidy has only been sanctioned so far, where the government order has actually been issued and the

balance is still in process, but the government order has not been issued hence we are not in a position to recognize that till the government order is officially issued.

Jignesh Kamani: Is the probability that sooner or later we will receive the subsidy or it is very difficult to comment on that part?

Shobhan Mittal: I am quite sure that the government will stand to its commitment. The question is when and in what time frame because this technically is statutory or a legal obligation on the State government's part which has been committed to us. I am pretty sure that we will eventually receive it, but it is a matter of time.

Jignesh Kamani: It was still December '22 only, right, after that the benefit has been less, right, December 22 onwards, right?

Shobhan Mittal: These are old subsidies which are due to us.

Jignesh Kamani: And I am saying from January onwards, is there any subsidiary which is due to all the subsidy has been over from December 22?

Shobhan Mittal: The recurring subsidy was only on account of electricity at the rate of Rs. 1 per unit which is still ongoing.

Jignesh Kamani: So, as of now, we are not booking anything because we have not received it?

Shobhan Mittal: Because we have not received it and we are not sure when we will receive it.

Moderator: Thank you. We have our next question from the line of Senthilkumar from Joindre Capital Services. Please go ahead.

Senthilkumar: My question is regarding this domestic MDF volume, in the last concall, management has guided for 12% domestic MDF volume growth, as per my calculation the 9 months of FY23 we have registered 7.40% growth in MDF volume, so I just wanted to understand from the management is, we still stick to this 12% guidance for FY23?

Shobhan Mittal: FY23, I don't think 12% is achievable, however, going forward, next year, I think we would like to give a broader range of 10% to 15% growth in terms of volume for the next year.

Moderator: Thank you. We have our next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Sir, just wanted to understand the Q4 volume that you have mentioned, 1,35,000 to 1,40,000, so is this be largely led by exports or is it the domestic market that you have been optimistic of?

Shobhan Mittal: I would say, in this number about 35,000 to 40,000 would be exports.

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

Shobhan Mittal: We thank everyone for joining this call. If anyone has further questions, please feel free to reach out to us and we look forward to speaking to you again at the end of the next quarter and the financial year. Thank you everyone and good bye.

V. Venkatramani: Thank you and have a good day.

Moderator: Thank you. On behalf of Greenpanel Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.