



**Greenpanel Industries Limited**  
**Q2 FY 2023 Earnings Conference Call Transcript**  
**November 8, 2022**

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**Rishab Barar:** Good day everyone and thank you for joining us on the Greenpanel Industries' Q2 and H1 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 result 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 Q2 FY23. We had good revenue growth of 11.66% year-on-year in Q2. MDF segment saw revenue growth of 17.8%, while plywood revenue saw degrowth of 16.6%, although volumes were subdued.

Net sales stood at INR 456.12 crore. MDF gross margins improved by 205 basis points. Plywood gross margins fell by 279 basis points leading to an overall increase of 211 basis points in gross margins year-on-year. EBITDA margins were down by 96 basis points at 27.3% due to raw material cost increases and significant fall in plywood volumes.

PAT is up by 8.05% year-on-year to INR 72.46 crore. Networking capital days at 24 days has shown an increase of 10 days compared to the year-on-year quarter. Net debt has reduced by INR 42 crore during the quarter and stands at negative INR 59 crore as on 30



September 2022. We also made advance payments of INR 30.5 crore during Q2 against expansion project.

For FY2023, we are guiding for 12% volume growth for MDF in the domestic markets, although export volumes are expected to be flat. We expect to improve, maintain the operating margins in MDF and plywood as volumes pick up in the subsequent quarters.

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

**V. Venkatramani:** Good afternoon, everyone. I thank you for joining us to discuss the Q2 FY23 financial performance of Greenpanel Industries. In Q2, net sales increased by 11.66% year-on-year at INR 456.12 crore. MDF sales grew by 17.8% at INR 395.09 crore and contributed 87% to the top line. MDF sales volumes were lower by 7.9% at 1,26,232 cubic meters due to reduction in export volumes. MDF domestic revenues were INR 333.85 crore, while exports contributed INR 61.24 crore. MDF domestic volumes were 99,495 cubic meters, up from 92,144 cubic meters in the corresponding period last year, while export volumes were 26,737 cubic meters.

Domestic realizations were up by 24% at INR 33,554 per cubic meter, while export realizations were higher by 21% at INR 22,906 per cubic meter. Blended MDF realizations were up by 28% at INR 31,299 per cubic meter. Uttarakhand MDF operated at 83% and AP plant operated at 70% with blended capacity utilization at 74% on enhanced capacity of 6,60,000 cubic meters.

Plywood sales degrew by 16.6% at INR 61.03 crore. Plywood sales volumes were down by 22.1% at 2.04 million square meters and the unit operated at 68% capacity utilization during the quarter. Plywood sales realizations were up by 7.2% at INR 299 per square meter.

In Q2 FY23, gross margin increased by 211 basis points year-on-year at 58.6%. Growth profit increased by 15.8% at INR 267.43 crore. EBITDA margins were lower by 96 basis points at 27.3%. EBITDA in value terms grew by 7.86% at INR 124.35 crore. Profit after tax increased by 8.05% at INR 72.46 crore versus INR 67.06 crore in the corresponding year-on-year quarter.

I will now provide an update on the performance details for H1 FY23. Net sales grew by 29.8% at INR 918.87 crore. MDF sales increased by 33.5% at INR 786.99 crore, while plywood sales increased by 11.3% at INR 131.88 crore. Gross margins were up by 373 basis points at



60.1%. Gross margin in value terms was up by 38% at INR 552.37 crore.

EBITDA margins were up by 258 basis points at 28.6% compared to 26.1% in the year-on-year period. EBITDA in value terms increased by 42.6% at INR 263.14 crore. Post-tax profits were up by 55% at INR 150.06 crore.

Overall, MDF sales volumes were flat 2,51,260 cubic meters with blended capacity utilization of the two plants at 78% compared to 76% in the year-on-year period.

Despatches for plywood increased by 4.3% at 4.56 million square meters with capacity utilization at 79% compared to 77% in the corresponding period.

Gross debt to equity stands at 0.18 as on 30th September, 2022 compared to 0.42 as on 30th September, 2021. Net debt reduced by INR 119 crore during the 6 Months period and currently stands at negative INR 59 crore as on 30th September 2022.

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

**Moderator:** The first question is from the line of Harsh Shah from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

**Harsh Shah:** I had a couple of questions. Firstly, on the import. In the month of September, we have seen quite a bit of a rise in the import volumes of MDF. Would you be having any data, whether what type of MDF and where exactly this be imported? And another related question is what the strategy to deal with the imports coming back, now that our volumes are also being impacted. So, do you initialize going forward that our overall capacity utilization would be on the lower end?

**V. Venkatramani:** See as far as the imports were concerned, imports were higher at approximately 13,600 cubic meters in September compared to around 3,000 cubic meters in previous month of June and July. But it could also be one-off factor due to logistic reasons. I think we will have to wait for at least a couple of months more to access whether reports are indeed increasing or whether it was a one-off case.

As far as our performance were concerned, imports did not impact our volumes. If you compare, volumes were quite similar in Q2 as

compared to Q1, and any reduction was only on the export side. So, there have been no impact on our domestic volumes at all.

**Harsh Shah:** And on the margin end, one of the peer company is of the opinion that in the medium to longer term the operating margin would be in the range of say, 18% to 20%, while there is another company which is saying that the operating margins would be in the range of 25% to 27%. So, what's your take on that? What do you feel in the medium term, the margins would look like? Obviously, the margin right at the peak.

**V. Venkatramani:** I wouldn't say they are at peak; I would say they were probably at peak during Q4 of last year or Q1 of the current year, but currently I wouldn't say they are at peak. I think for the next 18 months, we should be able to maintain margins at this level, but I agree with you, that long-term sustainable margins will be around 27% to 28%.

**Harsh Shah:** And any price hikes that are being planned? Are we planning to take any hike in the MDF segment?

**V. Venkatramani:** No, we have not taken any price hike in Q2FY23. And at the moment, we are fairly comfortable on the gross margin side. We are not looking at any immediate price increases.

**Moderator:** The next question is from the line of Dhananjai Bagrodia from ASK Group. Please go ahead.

**Dhananjai B:** Sir, would you say for realization, what would be the sustainable point?

**V. Venkatramani:** See, I think realizations are sustainable at this point of time. We have been able to sustain realizations during the past three months and although we were not able to increase realizations, although there were some corresponding increases in raw material costs, but at this point of time we don't feel that the realizations will trend lower.

**Dhananjai B:** Would you have any in terms of volume guidance for next year FY24 considering we would be steady state and how would that ramp up?

**V. Venkatramani:** It's difficult to give guidance for any particular year, but we have been guiding for a 14%, 15% volume growth on a three-year or five-year basis. I think we will continue to be in that range.

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



- Karan Bhatelia:** On the export side, this is the second consecutive quarter where we are at somewhat 26,000 cubic meter. So, correct to assume for the full year as well we will be clocking such averages?
- V. Venkatramani:** No, I think we can probably increase the export volumes in Q3 and Q4. I think we possibly did around 125,000 cubic meters last year, although it was higher in H1, as compared to H2. But I think on a year-on-year basis, export volume should be flat in FY23, as compared to FY22. So, it means that we should basically be around that 1,25,000 cubic meters mark.
- Karan Bhatelia:** Right. And any dealer distribution addition for the first half?
- V. Venkatramani:** No, I haven't really obtained that data, because we normally obtain it on an annual basis. So, I will update you next week.
- Karan Bhatelia:** And just to continue on this, any target for the branding expense, which was INR18 crore for the previous year? Sales and branding expense for FY22 was INR 18 crore?
- V. Venkatramani:** You are saying marketing expenditure?
- Karan Bhatelia:** Yes.
- V. Venkatramani:** Yes, I think marketing expenditure this year should be around the same level of 1% to 1.25% on sale, and we'll possibly we'll be looking at an increase in the next year. We will also be targeting some ATL activities next year, so that will possibly see an increase in sales and marketing expenditure from around 1% to maybe to 2.25%.
- Moderator:** We will move to the next question from the line of Udit Gajiwala from Yes Securities. Please go ahead.
- Udit Gajiwala:** Sir, could you reiterate that what kind of margin guidance is that sir mentioned in the opening commentary?
- V. Venkatramani:** Yes. Like Mr. Shobhan Mittal said, we are targeting similar margins to what we achieved in Q2FY23 for the rest of the year. And next year would possibly depending upon the increase in volumes we are able to achieve, we should we looking at either improving or maintaining the margins.
- Udit Gajiwala:** Understood sir. And on this 6,60,000 which will be having for say till FY24 post which only will having the new capacity. So, what could be the peak utilization you can expect from this unit on 6,60,000 all together?

**V. Venkatramani:** On the manufacturing side, there are no restrictions. We can have the full capacity utilization subject to the mix of value-added products remaining in the same proportion as it is today. But I think if you look at the next financial year, we should be targeting somewhere between 6,40,000 to 6,50,000 cubic meters.

**Udit Gajiwala:** Understood. And just sir last part, in last call you had mentioned that demand could be subdued, given the higher interest cost and everything. So, what gives the confidence as to grow the domestic volumes in H2 and also similar for FY24?

**V. Venkatramani:** Like if you recall, I had mentioned at the time that there could be an impact because of frequent rate increases by the RBI. But what I also mentioned was that we expect it to be for a short term, maybe for a couple of quarters, not for an extended period of time. So, that's why we are giving a positive growth guidance.

**Moderator:** The next question is from the line of Nikhil Gada from Abakkus Asset Managers LLP. Please go ahead.

**Nikhil Gada:** Sir, my first question is, just bit from a more broader perspective. Now that we have a more or less a broader understanding of all the other peers who have come up with their capacity announcement. Can you sort of guide for the next two, two and a half years, how the supply demand equation would stand and how much of capacity absorption time would it take for the entire new capacity to get absorbed? And in that if you can factor in imports as well, as what level of imports you think the demand supply would be in equilibrium?

**V. Venkatramani:** It's difficult to predict what imports would be for a slightly longer period of time. My reply is based on imports remaining at more or less the current level. So, if you look at the current situation, at the end of FY22, domestic capacities were about 2.34 million cubic meters and we expect that to reach about 3.4 million cubic meters by the end of FY25, which means approximately 47% increase on current capacities over the next two and a half years. And we think that these capacities should be fully absorbed by FY26 or max by FY27.

**Nikhil Gada:** Understood sir. But in this you are factoring that the imports would remain at the current levels of around 7%, 8%, right?

**V. Venkatramani:** That's correct.

**Nikhil Gada:** Understood. And in case because the reason, the entire state is concerned about the level of imports because in FY '18-'19 we used to



see exports upwards of close to 35%, 40%. And by any chance, do you foresee these inputs level even going to 20% given that, at that point of time, I don't think there was so much capacity in place in India?

**V. Venkatramani:** See, I will explain to you why it's difficult to predict imports. I can give you reasons why imports were higher in the past, primarily because we had very few capacities in the domestic markets and most of them were set up in North India and imports used to happen, more or less in the port areas of southern and western India.

Now imports have been falling over the past few years. So, there are various reasons why imports have been falling, there were logistic issues, containers and ships getting stuck up at ports, steep increase in ocean freight costs, then sustained increase in international MDF prices, replacement of China by Vietnam and Indonesia as furniture exporters to the U.S. and Europe.

There's not one single reason why imports were high or why imports have been falling over the past few years. There are multiple reasons. You cannot really imagine what a change in one factor could have an impact on imports. So, like two factors could change, one factor could change, or three factors could change, so there will be different level of impact for each change. That's why it's difficult to predict how imports would behave over the next two to three years.

**Nikhil Gada:** Understood. And sir just one last question on what would be our value-added mix, this particular quarter?

**V. Venkatramani:** In this particular quarter, it was about 49% on a volume basis. And on a value basis, it was about 60%.

**Moderator:** The next question is from the line of Manan Shah from Moneybee Investment Advisors. Please go ahead.

**Manan Shah:** So, is there any difference in the landed cost of the imports versus the domestic realization that we are achieving?

**V. Venkatramani:** Yes, I think if you compare apple to apple, then there would be about 8% to 10% pricing difference between domestic and imports.

**Manan Shah:** So, the imports will be 8% to 10% cheaper?

**V. Venkatramani:** That's correct.

**Manan Shah:** And these imports are primarily of the plain vanilla MDF or even value-added products are getting imported?



**V. Venkatramani:** Majority would be of the plain industrial MDF and there would be a few small shipments of pre-laminated MDF, but you don't have the value-added products or at least it's insignificant as far as the Club and exterior grades are concerned.

**Manan Shah:** Understood. So, if at all just hypothetically, if at all imports increase even further from here onwards, and if at all it effects our plain vanilla MDF volume, so is it possible for us to further increase the value-added mix? Or you think at current levels it is difficult to go beyond?

**V. Venkatramani:** No. We say, it's difficult to predict what can happen because two years back our value-added mix was around 30%. And at that point of time, we felt that it was a fairly high figure. But like I mentioned in the current quarter, it was about 50% on a volume basis, about 61% on a value basis. And even if you look at the first half of the current year, it's about 49% on a volume basis, and 60% on a value basis. So, it's difficult to predict how far the value mix can improve. Although, our internal targets, are to take this up from about 50%, to about 55%.

**Manan Shah:** On the volume side?

**V. Venkatramani:** Correct.

**Manan Shah:** And just, last question on the raw material inflation. So, earlier you used to indicate inflation on the raw material prices. So do you see those stabilizing, and now on a downward trend as, oil prices also stabilized and has come down from the peak. So, our reasoned prices, as well as on our timber prices, if you can just throw some light over there?

**V. Venkatramani:** Yes. We don't see any further inflation in raw material prices.

**Manan Shah:** And are they on a decreasing trend or have they stabilized?

**V. Venkatramani:** We have seen some decline in the resin prices, but we have not seen any decline on the timber side.

**Manan Shah:** You are very confident of maintaining your margins that you've achieved in Q2?

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

**Moderator:** The next question is from the line of the Darshil Jhaveri from Crown Capital. Please go ahead.





- Darshil Jhaveri:** I want to ask that our revenue guidance for last year around INR 2,000 crore top-line target. Would that be achievable with some decline in exports or do we see any change in that part?
- V. Venkatramani:** I think, we will probably be somewhere between INR 1,900 crore to INR 1,950 crore.
- Darshil Jhaveri:** So not any major impact to that, right?
- V. Venkatramani:** No, nothing major.
- Darshil Jhaveri:** And a broader base question around, like currently, we have, as mentioned. Our domestic capacity in general for whole India would be around 2.3 million cubic. So, at what point would imports be able to cannibalize it? So, what would be the domestic demand of the country? And at what point would import start hurting domestic players?
- V. Venkatramani:** Yes, I guess against the current capacity of 2.3 million cubic meters, demand would probably be around 1.9 million cubic meters. And like I mentioned, there is a variety of reasons why imports were higher in the past or have declined during the past few years. So, it's difficult to predict the trajectory for imports whether we'll see rising imports or falling imports in the future.
- Darshil Jhaveri:** Sir, the demand is a bit a shade lower than our current capacity. So, we think with the number of value, with the number of CapEx addition and other players and we are doing. So, do we see any competition which will lead to realizations being lower? Because if the demand is not as much as supplies and there would be some kind of price cut, could that be a fair assumption?
- V. Venkatramani:** So, like, if you look at the FY22, when we had that capacity of 2.3 million cubic meters, capacity utilizations were around 77%. And by the time all these new capacities are ready and operating, so by the end of FY25, we expect that capacity utilization will be back around 77%. So, we don't see any major gap between demand and supply, which will have a significant impact on prices. And also, I think from past experience, managements of different companies have realized that it does not pay to cut prices, you don't gain market share by reducing prices. So, I think they will be much more responsible as far as pricing is concerned, in future.
- Moderator:** The next question is the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

**Ashish Kumar:** Congratulations for a great set of numbers. Sir, my question was more around the capital allocation, given the fact that we are now generating cash flows on a predictable basis and are visibility for the next four, six quarters are strong. Our cash flows are significantly higher than what we will need even for the expansion project that we are talking about at INR 100 crore per quarter run rate. In terms of capital allocation policy, how are you guys thinking about it? Are you thinking about larger dividend payout or are you thinking about a buyback or what is your thought process around that, sir?

**V. Venkatramani:** See, as far as dividend is concerned, I think the Board will take a view depending upon the profits and utilization of cash flows over the next 12 months. And as far as the utilization of surplus cash flows is concerned, like, we will be investing approximately INR 600 crore over the next 18 to 20 months on the expansion projects. I think, we will not be having any surplus cash flows up to FY24. And beyond that, I think, yes, the policy is clear. So, if we have any avenues which will help to increase the investment value for the shareholder, we will opt to invest in new capacities. And if we feel that it's not really profitable to invest in new capacities, we will return money to the shareholders either by way of dividends or buy back.

**Ashish Kumar:** If I look at it as of today, we seem to have INR 300 crore of cash on the books. And over the next six quarters, if you are operating at current levels, you will generate at least INR 100 crore of cash flow per quarter, which mean next six quarter INR 600 crore of cash flow will be generated. Which will be -- and obviously on the new plant, as I think in last call you had mentioned, that you'll be taking some amount of debt as well. So, in which case, obviously, the cash flows are significantly higher, and the INR 300 crore of current cash is, obviously sitting and depressing the ROCs of that business. Given the fact that your stock price is also collected almost 40-odd percent of the peak. What we would suggest is if you guys should think about distribution of the cash for the shareholders through a buyback or some other mechanism. So that both the ROCs and everything else is kind of sustained?

**V. Venkatramani:** At the moment, there is nothing to complain as far as return ratios are concerned. ROCs continue to be robust even in the current quarter. Like I mentioned earlier, the management will evaluate opportunities from time to time. And whenever there is a feeling that we cannot deploy cash flows profitably in new ventures, we would return cash to shareholders.



**Ashish Kumar:** Sir any thought process of diversification away from MDF, any other plans as of now that you guys are thinking about in particle board or plywood or anything else that you guys are thinking about?

**Shobhan Mittal:** We are just exploring those opportunities in other avenues, but there's no concrete plans at this point of time.

**Ashish Kumar:** And Shobhan ji, if I may ask, push my luck further, will it be more towards the larger plywood segment or the particle board, the more capital based particle board side?

**Shobhan Mittal:** Well, it could actually be neither. Definitely given the plywood market scenario at this point of time, we are not very inclined for any growth in organic growth at least in the plywood segment. So, at this point of time, that's all I can say, and we are still continuing to explore other business opportunities.

**Moderator:** The next question is from the line of Abhishek Getam from Alpha Invesco. Please go ahead.

**Abhishek Getam:** Sir, my question was regarding, as we discussed earlier industrial project compared capacity FY25, FY26, and also on the alternative side, on the MDF side or particle board, the lot of this putting capacity. So, do we see there's a sort of a shift towards MDF for particle board or if particle board capacity is also increased, do we see the industry dynamic changing or how do you view this?

**V. Venkatramani:** See, particle board capacities were existing in India even before MDF came into the country. So, it's been there for a much longer period of time. And there are limitations to particle board applications, which you do not find with MDF and plywood. MDF and plywood can replace wood in all applications, whereas particle board has limited applications. So, because of significantly lower density, it's primarily used for vertical applications where there would not be a requirement of any substantial load bearing capacity and it's not used in horizontal applications where there would be requirement of significant load bearing capacity. So, particle board has existed for quite longest period of time. We don't think it will replace MDF in any applications as far as the future is concerned, it's already being employed for certain applications.

**Abhishek Getam:** Do we see Greenpanel getting into MDF after this new round of CapEx, other institutions or mean here?



**V. Venkatramani:** Yes. We are exploring new opportunities, but nothing we can discuss right now, it's in very initial stages.

**Abhishek Getam:** And actually, last question was sir, regarding our exports, our realizations in domestic and exports there's a big difference. So, who are we exporting mostly any geography certain level?

**V. Venkatramani:** There are reasons for difference in pricing between domestic and exports. One is, yes, there is pricing difference on an apple-to-apple basis, export realizations would be about 15% lower as compared to domestic. And other is, the proportion of value-added products in exports is insignificant, whereas it's at fairly high percentage in the domestic market. Like I mentioned earlier, almost 50% of our volumes in the domestic markets constituted value added products, whereas it would be insignificant in exports. So yes, there is significant difference between domestic and exports for the reasons I have mentioned.

**Moderator:** Let's move to the next question from the line of Nikhil Agarwal from VT Capital. Please go ahead.

**Nikhil Agarwal:** Sir I had a couple of questions. I believe you are the only manufacturer of thin MDF in India. And it is the thin MDF that have been imported more. So that is kind of a threat to you going forward. So, is it possible for you to switch your capacity from thin MDF to thick MDF?

**Shobhan Mittal:** Your information is incorrect. We are not the only manufacture for thin MDF, everyone manufactures thin MDF.

**V. Venkatramani:** And if you look at our volumes, almost 70% of our MDF is of the thick category, whereas 30% is thin.

**Shobhan Mittal:** As a percentage, we are actually a very small manufacturer of thin MDF, as the percentage of the capacity.

**Nikhil Agarwal:** Yes. Sir, so for that capacity, the 30%, can you switch that capacity to manufacturing thick MDF or is it you can only manufacture thin MDF from that?

**Shobhan Mittal:** No, it's absolutely possible. The production line that we have is completely flexible to convert from thin to thick, or thick to thin, depending on the market demand. But at the same time, this assumption that imports of primarily happening in thin MDF is also incorrect. There is a fairly large amount of thick MDF also coming into the country. In fact, imports at least the bigger consumers, the OEMs,



et cetera, do not consume a lot of thin MDF, they primarily consume thick MDF.

**Nikhil Agarwal:** Thick MDF. Okay, and my second question was on the plywood segment. What exactly went wrong during the quarter? I mean your gross margin fell down. So, was it because of the price hike? Have you taken any price hike, or is it because of the timber prices that have increases, what was the reason and what is the guidance going forward?

**V. Venkatramani:** We have taken a small price increase of 2% in July, so that was insufficient to take care of the inflation on the raw material side. That's why we saw significant fall in the gross margins.

**Nikhil Agarwal:** And sir, do we expect margins to improve going forward?

**V. Venkatramani:** Yes, we do expect margins to trend back to about 10% in future quarters.

**Nikhil Agarwal:** Like, immediate from this Q3 or from FY24 going forward?

**V. Venkatramani:** Q3 is not very strong quarter because of the festival season. So, I think we will see the improvement in Q4.

**Moderator:** The next question is from the line of Bismith Nayak from RW Advisors. Please go ahead.

**Bismith Nayak:** Yes. Sir, what would be the export volumes for this year?

**V. Venkatramani:** You mean for the first half or the full year?

**Bismith Nayak:** No, sir, for Q1 FY23 and Q2 FY23?

**V. Venkatramani:** For Q1, it was 26,600 and for Q2 it was 24,997. So, for H1, it was 51,597.

**Bismith Nayak:** Yes sir. So, crude being where it is and most of our exports, in my understanding, at least goes to Middle Eastern nations. So, volume decline and your realizations decline. I mean, does it not look opposite to the thesis? I mean, what is going wrong over there? Or is it Non-Middle East --

**Shobhan Mittal:** So, I think, what is happening is basically with the lull around other markets, the Middle East is heavily dependent on Asia for its supplies of MDF. So basically, additional volumes which were being consumed in more lucrative markets from producers in Thailand and Malaysia are



now being diverted to the Middle East, which is resulting in oversupply there and also to some level of pricing pressure, which is why there has been a reduction in the export volumes. But it's not because there is a subdued demand or anything of that sort. The demand is fairly robust even today. It's just that producers who were not supplying to the Middle East, are now focusing on the Middle East and there is an oversupply because of that.

**Bismith Nayak:** Sir, if I recall our conversation, recall your past commentary also, I mean we use better quality of wood, than Southeast Asian nation and we get preference in priority and selection, not in pricing. So, is that not playing out now or are they discounting at a much higher level compared to us?

**Shobhan Mittal:** Yes. I mean, eventually it is a commodity end of the day. If someone is offering apples, similar price points then obviously we would get that reference, but if the pricing pressure comes in and someone starts offering lower pricing then these benefits basically get eroded out, people don't consider these.

**Bismith Nayak:** And one last question sir on MDF, what kind of inflation did we see in wood?

**V. Venkatramani:** Yes. I think, as far as inflation in raw material is concerned, it's almost at its peak, so we don't see any significant increase in raw material prices.

**Moderator:** The next question is from the line of Priyam Khimawat from ASK Investment Managers. Please go ahead.

**Priyam Khimawat:** Just wanted to understand, last year we got some EPCG benefit which contributed to around 2% of our margins. So, this year any such thing is there, or these are margins without that?

**V. Venkatramani:** These are margins without that because we had exhausted our EPCG obligations in March 2022. So, the current year margins are without any EPCG benefits.

**Priyam Khimawat:** Okay, that's great, that we have been able to maintain margins, despite that renewed. Just on the other part on your guidance, you highlighted that for the next 18 months we are expecting similar kind of margins that for the next six quarter, and after that it can fall to around 27%, 28%. So, why is that we think that next six quarter margin will be higher, in fact, capacity additions are higher in the coming six quarter from



Century from Greenply, so why is that we think that margin will be maintained?

**V. Venkatramani:** So, like, I mentioned that next 18 months most of these capacities would probably come up in the second half of the next financial year. So, there's not much capacity addition coming up over the next 12 months. And the second point is like you mentioned, we have given the positive guidance on the volume side. So that's the reason why we expect to increase or maintain our margin.

**Priyam Khimawat:** Understood. So just operating leverage will play out on the next 1,00,000 or 1,25,000 CBM which we said in FY24. Is that understanding correct?

**V. Venkatramani:** That's correct.

**Priyam Khimawat:** So even at 4% to 5% realization drop, I think we will be able to maintain our margins at current levels because of the operating leverage playing out?

**V. Venkatramani:** That's correct.

**Moderator:** The next question is from the line of Ankur Nahata, Individual Investor. Please go ahead.

**Ankur Nahata:** My question is to the entrepreneur. Are you looking for any forward integrations?

**Shobhan Mittal:** Like I said, we are currently exploring other business opportunities, but they are at a very infancy stage. At this point of time, obviously, the focus is on the new plant, on the new line expansion at Andhra Pradesh. The new MDF line that we are setting up, but simultaneously, while that work is ongoing, we are exploring other avenues both in terms of value addition, forward integration as well as independent business, but related businesses. So, these are just under exploration stage at this point of time.

**Ankur Nahata:** So, as the new plant come up, like, how are we increasing the awareness, or we are building communities as volumes degrew this year of MDF.

**Shobhan Mittal:** Well, volumes have degrown primarily on account of the export business as we have mentioned. However, on the domestic side, the demand has been fairly robust. And like Mr. Venkat mentioned, we are also planning on increasing awareness next year, especially focus on brand building by way of ATL promotions, et cetera. So that will be the



focus. Also do keep in mind, that the new line that we are investing into is primarily a thin MDF production line. The focus of that line would be production of thin MDF. That is a segment where we are not present in the south of India in our existing Andhra Pradesh line, because that line does not produce thin MDF. So that is a market segment where we are currently not present in very actively in the south of India. So that market would immediately be available for us to take some market share away. That was the logic of investing into the thin MDF line in the south of India.

**Moderator:** The next question is from the line of Vipin Taneja, Individual Investor. Please go ahead.

**Vipin Taneja:** Sir, the ADD is being removed in this current year, and the freight cost are dropping, and your plant is also in South India, Andhra. Do we see good export competition on that front?

**Shobhan Mittal:** Well, the anti-dumping has been removed for some time now, to be honest with you. Even when it was present, it was not a blanket ban. It wasn't really helping to a very large extent. But freights had gone higher, it has come down, but import would always be limited to the coastal markets for that matter, the moment material start transporting more inland, the additional freight required to do that, makes them at par or not competitive with us. At the same time with the current currency situation, which is very volatile, people have realized it's always a situational kind of a business, but it's not a long-term kind of scenario. So many importers who used to have a 100% business model based on imports have now moved to domestic producers. So, it will always be some level of competition, but I won't say that it is a very serious matter of concern. It would always prevail.

**Vipin Taneja:** And my second question was that the entire global market is shifting towards gradually towards some MDF to particle board or the percentage of particle board in the entire market and the exports in the production volumes change in particle board is a much higher segment compared to MDF and the market is gradually moving towards that. And we have been reading articles that MDF is a makeshift arrangement and gradually the market will shift towards particle board. Can you shed some light on this?

**Shobhan Mittal:** No, I think that information is absolutely incorrect. And MDF is a far superior product to particle board. See, if you take like, if you take 100 panels, 70 panels would be particle board and 30 panels would be MDF. Traditional all across the world that has been the scenario, so particleboard has always been a 2:1 ratio to MDF, historically and even





today. So, there is no shift happening like Venkat mentioned earlier as well that the particle board applications are very, very limited, to certain tabletop applications and vertical applications, but they cannot replace solid wood, they cannot replace plywood. So, MDF is the product that is as versatile enough to replace all these other applications.

At the same time, if you look at countries like the Middle East, you know climatic conditions play an important role here. Countries where weight is considered quality, like India is one of those countries where weight is considered quality. In that case people give a preference to particle board. In the Middle East countries there is zero particle board, the whole market is dominated by MDF. So, it all boils down to market preferences and application styles and usage of materials but the claim that market is shifting from MDF to particle board is absolutely untrue.

**Vipin Taneja:** And what is your take on India share of particle boards versus MDF? Like is it going to be same?

**Shobhan Mittal:** Obviously, see because A, particle board in India has been existing for much longer period than MDF. B, it's obviously a much cheaper product as well. So obviously the volume currently in terms of engineered panels particle board is higher. But as we see the volumes of plywood reducing, the unorganized segment getting more and more uncompetitive, that segment is not going to shift to particle board, because like for example, carpenters will not start using particle board, when plywood is becoming more and more expensive and more and more uncompetitive, they will start shifting to MDF, not to particle board.

**Moderator:** We will move to the next question from the line of Prasheel Shah from Kitara Capital. Please go ahead.

**Prasheel Shah:** So, our MDF margins are sitting at close to all time high upwards of 30%. You have explained why you think they will remain stable for the next 12 to 18 months and why they will fall down later on. What are some of the risks that you see, because of which margins can deteriorate from these levels over the next 12 months and move closer to 27%, 28% faster than you think it will? What are some of these reasons?

**V. Venkatramani:** See, the only thing which could disturb the margins is demand. So, if demand starts to fall down substantially, we will have capacity utilization at much lower levels which would lead to lower margins. So, that's the only risk I can visualize at this point of time.



- Prasheel Shah:** And what are we doing differently than others that will help us protect these margins at these levels in the near future?
- V. Venkatramani:** See, it's not like we are the only ones who are earning high margins. So, if you look at the organized competitors apart from Rushil, I think their margins are closer to us and Rushil's margins will be lower due to a mix of lower pricing and lower capacity utilization.
- Moderator:** The next question is from the line Diksha Agarwal from Equity Master. Please go ahead.
- Diksha Agarwal:** My question is related to the capacity expansion of system utilization. Sir, in which year do you see it start getting reflected in the revenue and by which year do expect the utilization to be close to maximum level?
- V. Venkatramani:** We expect commercial production to start in Q1 FY25 and we expect optimum capacity utilization in FY27.
- Diksha Agarwal:** I think you mentioned that this capacity would be dedicated to thin MDFs. So, I just want you to understand in terms of profitability, is it very different from your current product versus what you're going to get in this new capacity?
- V. Venkatramani:** No, there's no significant change in profitability, probably almost similar.
- Diksha Agarwal:** And sir, in your presentation, in one slide, you mentioned that the value-added mix is at 12% for the first half year. So, just wanted to understand from a two to three-year perspective, do you see this mix shifting more towards value added or do you expect the ratio to broadly remain the same?
- V. Venkatramani:** I'm not sure where you've seen that. So, like I mentioned earlier during this call, our value mix in the MDF segment is around 49% - 50% in volume terms, and about 60% in value terms and the value-added mix in the plywood business is around 10% to 12%.
- Moderator:** The next question is from the line of Dhananjai Bagrodia from ASK Group. Please go ahead.
- Dhananjai B:** Just a follow up question. Sir, what was the exceptional item we had this quarter?
- V. Venkatramani:** There were actually two exceptional items. One was, if you recall, when we demerged from Greenply, we had made a provision for excise duty



which may be payable by Greenply Industries, we had made the provision of about INR 10.8 crore. And as per the terms of the demerger agreement with Greenply, if that liability did not crystallize by March 22, then Greenpanel would not be liable to share that liability. So, since that demand did not happen by March 22, we wrote back that liability.

And the second part is the Andhra Pradesh Electricity Board had installed a transformer on our site. So, as part of the agreement, we had to hand over that plot of land with the assets on it to the AP Electricity Board. So, first the liability reversal was INR 10.8 crore and the write off of assets due to that gift to the AP Electricity Board was about INR 4.5 crore. So, the net impact is around INR 6 crore.

**Dhananjai B:** So, why did we have to give them a gift? I didn't get that part, sorry?

**Shobhan Mittal:** When we had set up this plant, because of the remote location of the land that we had, we had two choices. One choice was to bring a 33 kV line from an existing substation which was very far away, which would have costed us a much larger sum as opposed to there was already a 400 kV line available close by to our manufacturing location. So, the proposal that was made was that we bring the 400 kV line next to our plant and create a new substation which was far more economical. But because a substation generally is a government asset, hence, it was agreed upon that post the creation of the substation, which was at our cost, the asset would get transferred to the government because that is the regulation. But the whole idea was economics or reduction in capital investment.

**Dhananjai B:** And would we get reimbursed completely in terms of what our CapEx was or how was that done?

**V. Venkatramani:** No, no, we won't get any reimbursement. That's why we wrote out that.

**Dhananjai B:** And sir, what would be the tax rate for next year?

**V. Venkatramani:** Approximately 25%.

**Moderator:** The next question is from the line of Nikhil Gada from Abakkus Asset Managers LLP. Please go ahead.

**Nikhil Gada:** So, just a couple of questions. So, when you say that we expect exports to be flat for FY23, then we are talking about a growth of somewhere around 65%, 70% in the second half of FY23. And while



you mentioned that we are already seeing a lot of supply in Middle East, what gives us confidence that we'll be able to achieve this kind of risk?

**V. Venkatramani:** We have already got some orders in hand, which will be executed during the current quarter. And those are significantly higher than what we executed in the first half of the year. And we expect those to be sustainable. So, that gives us the confidence that we will be able to match the export volumes achieved last year.

**Nikhil Gada:** And the realization, would be at similar levels, right, or we are seeing even further price increase?

**V. Venkatramani:** No, like Shobhan ji mentioned that due to the reduction in the export of MDF to Europe from Asia, exports to the Middle East have increased. So that will lead to lower realization in future quarters.

**Nikhil Gada:** And just, secondly, on plywood front, for second quarter apart from the margin impacts, the volume impact has also been quite significant, we have seen almost 20% decline. Any specific reason, was it because of slower demand or was it some amount of destocking by the channel because of the way the prices increases, and the demand was slow?

**V. Venkatramani:** I think it was primarily, due to a demand slowdown in July and August. I think that was the primary reason.

**Nikhil Gada:** And you expect this to improve going forward or you still feel that 3Q would also be similar levels in terms of volume?

**V. Venkatramani:** I don't see any significant improvement happening in Q3 because October was again disturbed due to the festival season and normalcy will probably resume from around the 10th or 12th. So, again, Q3 will probably be almost a similar quarter to Q2 as far as the ply wood business is concerned. I think improvement will possibly start reflecting from Q4.

**Moderator:** The next question is from the line of Harsh Shah from Dalal & Broacha. Please go ahead.

**Harsh Shah:** Yes. Just a clarification. You mentioned 12% of volume growth in the domestic MDF segment, right?

**V. Venkatramani:** That's correct.

**Harsh Shah:** And exports to be flat for the whole year?



**V. Venkatramani:** That's right.

**Moderator:** As there are no further questions, I now hand the conference over to management for passing comments.

**Shobhan Mittal:** We thank everyone for joining this call. And we look forward to speaking to everyone again in the next quarter. If anyone has any further questions or clarifications, please feel free to reach out to us. We wish everyone very belated Happy Diwali and stay safe. Thank you.

**V. Venkatramani:** Thank you.

**Moderator:** Thank you. On behalf of Greenpanel, that concludes this conference. Thank you for joining us