



## Greenpanel Industries Limited

### Q4 & FY23 Earnings Conference Call Transcript

May 8, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to Greenpanel Industries Q4 & FY23 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you, and over to you.

**Rishab Barar:** Good day everyone and thank you for joining us on the Greenpanel Industries' Q4 & 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:** Thank you, Rishab. Good morning, everyone and thank you for joining us to discuss Greenpanel's 'Operating and Financial Performance' for Q4 FY23.

MDF sales volume rose by 10%. Export volumes grew by 89%, while domestic volumes fell by 7%.

MDF EBITDA margins at 22% were impacted by higher export volumes, steep increase in raw material costs, higher brand spends, primarily on account of IPL which was skewed towards the last quarter and price cuts taken in exports.

Plywood volumes were lower by 17.1% and operating margins of 0.4% were impacted by lower volumes and increase in raw material costs.

Post-tax profits for the quarter were lower by 14% at Rs. 68.93 crore as compared to Rs. 80.59 crore in Q4 FY22 due to reasons mentioned above.



Net working capital at 17 days has shown a reduction of 6 days quarter-on-quarter. Net debt has reduced by Rs. 42 crores during the quarter and stands at Rs. (-187) crore as on 31<sup>st</sup> March 2023.

We paid Rs. 11 crores towards the MDF expansion project during Quarter 4, aggregating to Rs. 50 crores during the year-to-date.

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

**V. Venkataramani:**

Good morning, everyone. I thank you for joining us to discuss the Q4 FY23 'Financial Performance' of Greenpanel Industries.

Net sales during Q4 FY23 was Rs. 440.58 crore compared to Rs. 460.26 crore during the year-on-year period. MDF sales fell by 1% at Rs. 386.02 crore and contributed 88% of the top line. MDF export volumes grew by 89% at 42,927 cubic meters. Domestic volumes were down by 7% at 94,338 cubic meters and overall MDF volumes were up by 10% at 1,37,265 cubic meters.

MDF domestic revenues were Rs. 311.10 crore while exports contributed Rs. 74.90 crore. Domestic realizations were lower by 1% at Rs. 32,978 per cubic meter, while export realizations were lower by 21.5% at Rs. 17,450 per cubic meter. Blended MDF realizations were lower by 10.2% at Rs. 28,122 per cubic meter.

Uttarakhand MDF operated at 85% and AP Plant operated at 77% with blended capacity utilization at 80% on enhanced capacity of 6,60,000 cubic meter.

Plywood sales had de-growth of 22.6% at Rs. 54.56 crore. Plywood sales volumes were low by 17.1% at 2.04 million square meters and the unit operated at 70% during the quarter. Plywood sales realizations were up by 6.3% at Rs. 268 per square meter.

In Q4 FY23, gross margin fell by 662 basis points year-on-year at 53.7%. EBITDA margins were down by 1,150 basis points at 19.2%. MDF export realizations were lowered by 10% year-on-year due to price cuts in exports. EBITDA stood at Rs. 84.75 crore due to reasons already mentioned by Mr. Mittal. PAT was lower by 14% due to the fall in EBITDA and reflected gains due to deferred tax write-off aggregating to Rs. 29.36 crore.

I will now update you on the performance details for FY23:

Net sales grew by 12.2% at Rs. 1,778.55 crores. MDF sales increased by 15.4% at Rs. 1,534.58 crores, while Plywood sales were lower by 4.7% at Rs. 243.97 crores.

Gross margins were up by 38 bps at 58.1%. Gross margin in value terms were up by 12.9% at Rs. 1,032.76 crores. EBITDA margins were lower by 320 basis points at 24.5%. EBITDA in value terms fell by 0.8% at Rs. 435.87 crore. Post-tax profits were up by 7% at Rs. 256.51 crore.

Overall, MDF sales volumes were up by 2.4% at 5,06,743 cubic meters with blended capacity utilization of the 2 plants at 78% of enhanced capacity, compared to 87% in the corresponding period.

Dispatches for Plywood were lowered by 7.7% at 8.58 million square meters with capacity utilization at 74% compared to 81% in the corresponding period.



Gross debt to equity stands at 0.16 as on 31st March 2023 compared to 0.30 as on 31st March 2022.

Net debt as on 31st March stood at Rs. (-187) crores compared to Rs. 144 crores as on 31st March 2022. That concludes my presentation.

Please open the floor for the Q&A session. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harsh Shah from Dalal & Broacha Stock Broking Pvt. Ltd. Please go ahead.

**Harsh Shah:** A couple of questions from my side. Any update on the representation we have made to levy the duty on the imported MDF and related question hypothetically, if the duty is levied, what would the difference in pricing go down to?

**Shobhan Mittal:** Matter is still under consideration by the various ministries. The Commerce Ministry has made the recommendation. The Finance Ministry has not yet decided. Cases like ours have actually been taken up also in the Tribunal and the Supreme Court where both the Tribunal and the Supreme Court have upheld that the Finance Ministry will need to take a decision on this and until such time provisional assessment of duty should be assessed. Because the Government machine takes time for implementation, however, the same has not yet been implemented. So, it's very difficult for us to give any clarity as to when and if the duty implementation will happen. With regards to the pricing, I mean it's clear to say that if duties do come into picture, then in my opinion imports will not be a major threat anymore.

**Harsh Shah:** On the Plywood division, any sort of guidance you want to give for FY24 because when I look at the margins it's probably a disappointment in this quarter so how should we look at FY24?

**V. Venkataramani:** So, we are restructuring our Plywood business model in certain ways, and we are quite confident for double-digit volume growth in the Plywood business with margins between 8% to 10% in the current financial year.

**Harsh Shah:** And just last one question. I believe in Q2 or Q3, we had seen some sort of slowdown in onboarding distributors in the MDF segment. How has been the situation and if you could give in terms of the number of distributors year-on-year, what has been for FY23 in compared to FY22?

**Shobhan Mittal:** When we have certain distributors and dealers in our network, we also commit a certain geographical region or a number of operating dealers in that area are committed based on the business model. We did an assessment in the last financial year and our assessment was that certain dealers that were not very active or not very regular or were not in sync with our business model or business growth strategy and hence we decided to discontinue business operations with such dealers. And that is the reason why you see a dip in the active dealer numbers that we have because we are now in the process of reappointment / expansion of the dealer network again. It's a replacement exercise.

**Harsh Shah:** And if you could give a number how many distributors we have for the full year as on FY23.

**V. Venkataramani:** About 2,300.

- Moderator:** Thank you. The next question is from the line of Shrenik Surendra Bachhawat from LIC Mutual Fund. Please go ahead.
- S.S. Bachhawat:** I wanted to understand that currently have we taken any price cuts in MDF segment in domestic to get back certain volumes and if not, is there any breaking point that after which we will have to take a price cut in domestic market if ADD doesn't come through? And my second question is, as our Plywood volumes are down 17%, is there any specific reason for weak Plywood volume this quarter?
- Shobhan Mittal:** The first question with regards to the price cuts in the MDF, no, we have not taken any price cuts in the MDF and even now we are operating in an environment where there is no protection from imports coming into the country but we do not intend on taking any price cuts and there's no defined breaking point where we'll have to resort to taking a price cut in the MDF business. So, that's definitely not on the cards given the current economic scenario. With regards to the Plywood volumes, yes, there was pressure on in on the market side. We refrain from taking any price cuts and passing on any discounts which has resulted in this reduction in the Plywood volumes, but we are confident of reviving this in the coming year and as mentioned earlier, we're looking at a double-digit volume growth in the Plywood segment as well.
- S.S. Bachhawat:** I'm just asking what gives you the confidence about double-digit volume growth Plywood as the raw materials prices continue to increase. So, what are we doing to get a double-digit growth I'm trying to understand.
- Shobhan Mittal:** We are very, very positive about our Plywood business. It is a business of focus for us. And given our current infrastructure and the distribution network, the fact that the Company has spent on establishing a brand which is important for the Plywood industry, we foresee that this would not be a challenge in the coming year.
- S.S. Bachhawat:** And is there inflation continuously impacting the raw material for Plywood?
- Shobhan Mittal:** Things have stabilized and to a very slight extent corrected as well.
- Moderator:** Thank you. The next question is from the line of Udit Gajiwala from YES Securities. Please go ahead.
- Udit Gajiwala:** Sir could you throw some light on the trajectory of the MDF volume growth that you foresee for the Company and further price realizations could come down?
- Shobhan Mittal:** What you mentioned was that what kind of volume growth we are looking at for MDF in the current year and whether we are looking at any cut in prices, is that correct?
- Udit Gajiwala:** That is right.
- Shobhan Mittal:** So, the MDF volume growth we are looking in between 12% to 15% and we are quite confident of achieving this in terms of the volumes of MDF and as we discussed in an earlier question as well, we have no plans of any price cuts in the MDF business at this point of time.
- Udit Gajiwala:** I just concluded that the margins could remain between this band of 25% to 26% or we could see some contraction on a full year basis?
- Shobhan Mittal:** With regards to margins, we are quite confident in the 23% to 25% range.

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

**Achal Lohade:** Sir. In terms of the IPL impact, the A&P impact, can you specify what is the extent of impact in the 4<sup>th</sup> Quarter and when you say 23% to 25% EBITDA margin, what is the A&P spend we are assuming there?

**V. Venkataramani:** IPL impact so there were actually three different spends – one was the IPL impact. We also were doing some branding efforts in the India-Australia test series and we were also sponsoring the Pretoria Capitals, so the combined impact was about Rs. 7 crores in Quarter 4.

**Achal Lohade:** Would that be a recurring one?

**V. Venkataramani:** Yes, it will be a recurring. I think if you look at brand spends, I think we will be in a range of about 2.5% for FY24.

**Achal Lohade:** My next question is in terms of the industry capacity, if you could give your perspective on the same in terms of what is the capacity India has as of March 2023 and by March 2026, what kind of increase are you looking at and accordingly what the capacity utilizations could be for players in FY26 for the industry as a whole?

**V. Venkataramani:** We had about 2.3 million cubic meters at the end of FY22 and I think over the next 3 years including FY23, we will see approximately 1.15 million cubic meters capacity getting added to the market but there could be some new capacity is coming in from unorganized players of which I'm not aware about.

**Achal Lohade:** So, there's 1.15 is only the organized players addition you are considered.

**V. Venkataramani:** Yes, that's correct.

**Achal Lohade:** If you could give us a sense in terms of export margin, how would that be in 4Q and full year FY23?

**V. Venkataramani:** I don't have it readily available Achal, I'll come back to you on that.

**Achal Lohade:** And just one more question if I may. With respect to price difference in terms of the thick and thin MDF compared to the imports as we speak.

**V. Venkataramani:** Currently it would be on a range of about 10% to 20%. So, if you look at the landed cost, there would be a difference of about 18% to 20%. But if you compare the prices if they were to affect the delivery at the customers godown then probably the range would be somewhere between 10% to 12%.

**Moderator:** Thank you. The next question is from Sneha Talreja from Nuvama Wealth & Investment Ltd. Well, please go ahead.

**Sneha Talreja:** I just wanted to understand on the industry aspect, you mentioned the industry capacity to be 2.3 million cubic meters. What would be the industry size and what would have been the growth rate in FY23, if at all you can just elaborate that?

**V. Venkataramani:** It was approximately about 1.75 million cubic meters at the end of FY22 and during the year we estimate that approximately the 2,25,000 cubic meters to 2,50,000 cubic meters should have been added to the market during FY23.

**Sneha Talreja:** And in terms of crore, if at all you can mention even now value terms that will be really helpful.

**V. Venkataramani:** It's very difficult to mention in value terms because the unorganized does not provide full invoices to its customers so it's difficult to give the growth in value terms. If you look at our blended realizations would be around 33,000 for the domestic segment whereas you know, if you look at some of the competitors, they're probably around 24,000 to 25,000.

**Sneha Talreja:** But the volumes include the unorganized part also, right the one that you mentioned 1.75.

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

**Sneha Talreja:** Sir. And is it fair to assume that this particular quarter, the decline that you saw in the domestic market was also because of some number of imports replacing the domestic player's volume?

**V. Venkataramani:** I wouldn't say it replaced; I would say rather it took away growth from the organized players. We didn't lose market share, so your compare Quarter 3 to Quarter 4, we didn't lose any volumes, in fact, I think we have achieved an additional 1,000 cubic meters volumes during Q4 as compared to Q3. So, I would say we could not get the growth that happened during the market in the last quarter.

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

**Karan Bhatelia:** You mentioned about 12% to 15% volume growth in FY24. So, can we further split it into export growth and domestic growth?

**V. Venkataramani:** I think we are targeting low double-digit growth in the domestic segment and more than 20% growth in the export volumes.

**Karan Bhatelia:** How much is the timber prices on a YoY basis in North and South because while I believe the inflation was only North, but in last 3 to 4 months it seems an escalation in South as well so any comments over there?

**V. Venkataramani:** For Q4 FY23 timber prices in the North were ranging between Rs. 5.5 to Rs. 5.6 per kg, whereas a year ago it was about Rs. 4.3 to Rs. 4.4 per kg. For the South, it was about Rs. 3.8 to Rs. 3.9 a kg, whereas in Q4 last year it was around Rs. 3.10 to Rs. 3.20 per kg.

**Karan Bhatelia:** And prices are expected to now cool off or we will continue to see some more escalation going?

**V. Venkataramani:** I don't think we are expecting any immediate cool off in prices, but yes, we expect stability in prices.

**Moderator:** Thank you. The next question is from the line of Darshit Vora from Robocapital.in. Please go ahead.

**Darshit Vora:** Actually, I just have one question. I just need a view on revenue and both EBITDA and PAT margins going forward in the next 2-3 years and also for specifically FY24, if you can and also the key driver, which I presume is Plywood and MDF segment.

**V. Venkataramani:** We mentioned earlier, we are targeting 12% to 15% volume growth in the MDF segment. I think at the moment we are not looking at any price growth, although we will also endeavor to improve the values by increasing the mix of value-added products. And if you're looking up for 3-year guidance or endeavor would be to have an annual growth rate of about 10% to 15% in the MDF segment. And we expect margins to be stable in the range of 23% to 25% we mentioned earlier. Although those margins are expected to come under pressure when the new capacity comes into commercial production because of lower capacity utilization expected on the enhanced capacity.

**Moderator:** Thank you. Thank you. Next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

**Praveen Sahay:** The first one is related to the MDF, in the last 4 quarters if I look at the utilization level of the plants were quite fluctuating from 74% to 81%. So, is there any seasonality on the QoQ basis? And secondly, to the MDF you are taking a capacity expansion by FY25. So, how you are looking at the export and the domestic mix way forward?

**V. Venkataramani:** We mentioned earlier, we are targeting 12% to 15% volume growth in the current year and it will be our endeavor to have the entire current capacity utilized before the new unit comes into commercial production.

**Praveen Sahay:** And how is the export and the domestic mix you are expecting?

**V. Venkataramani:** Like I mentioned, we are looking at low double-digit growth in the domestic volumes and (+20%) growth in the export volumes.

**Praveen Sahay:** And is there a seasonality in the quarter-on-quarter?

**V. Venkataramani:** No, there is not really any seasonality in the MDF business because it's all related to the interiors so climatic conditions do not really impact the business.

**Praveen Sahay:** And the next one is related to EBITDA per CBM, which has reduced for a quarter. So, where you are seeing in the coming years EBITDA per CBM number?

**V. Venkataramani:** If you look at the current quota, I think it was to a significant extent also impacted by the adverse mix of domestic exports. So, if you look at Quarter 3, we had 79%:21% share of domestic and exports, while in this quarter the share was 69% domestic and 31% export. So, that had a significant impact on the margins. But going forward, we expect EBITDA per cubic meter to be in the range of 6,500 to 7,500 per cubic meter.

**Praveen Sahay:** And lastly sir on the CAPEX number if you can guide for FY'24-25?

**V. Venkataramani:** We have spent approximately Rs. 50 crores in FY23 and I think probably a similar amount would be spent in FY25. So, I would estimate that most of the balance approximately Rs. 500 crores would be spent in FY24.

**Moderator:** Thank you. The next question is from the line of Utkarsh Nopany from Haitong Securities. Please go ahead.

**Utkarsh Nopany:** Sir, like my question is on MDF segment so we have increased our MDF capacity from 5.4 lakh to 6.6 lakh and despite that our volume has been for in the domestic market hovering around 90,000 to 1,00,000 CBM over the past 7 consecutive quarter. Given a lot of new MDF capacity is likely to come in the

domestic market in the current fiscal, what gives us the confidence that we will be able to clock low double-digit kind of a volume growth in FY24?

**V. Venkataramani:** So, if we look at it domestic competition has not really had any impact on our performance. It is more imports which have impacted our domestic performance and I think going forward imports will face challenges because of uncertainty over imposition of ADD/CVD and their buyers would also be turning conservative because they would not like to take on additional risks on account of any additional duties on their account. So, I think going forward domestic manufacturers will get a significant share of future market growth.

**Utkarsh Nopany:** Sir, again I am coming on to this question so if we see the annual import in FY23 will not be more than 2 lakh to 2.5 lakh CBM whereas in this fiscal we are expecting significant amount of capacity to get added. So, seeing lot of supply side pressure coming in the domestic market how we are confident that we can clock the volume growth in FY24?

**V. Venkataramani:** So, like I mentioned earlier what is giving additional market share to imports, its primarily because they are coming at a significantly lower price, but if you look at other domestic players, they are not at the same price as imports. So, yes those new capacities will be operating at low capacities. They will look at a larger share of exports, but you know they would not really look at gaining market share by cutting prices because I think everyone in the industry is more or less of view that cutting prices does not give you increased market share because as soon as one cuts prices others follow soon within the same day or the next day. So, I do not think an increase in domestic capacity will really significantly impact our volumes.

**Utkarsh Nopany:** Sir second question is on the pricing side so if we see the spread between the domestic and the export MDF realization which is currently at a record high level in this March quarter, so do you expect this spread to remain at the current level or this spread might narrow down going forward?

**V. Venkataramani:** It has come down to some extent in the current quarter. So, we are taking new orders at prices which was slightly higher as compared to the March quarter, but yes going forward this will significantly depend upon whether imports continue to grow or whether imports will decline in the future because just like imports are having an impact in India, they are also having an impact on our export markets most of which are located in the Middle East. So, significant impact increase in export realizations will depend on future imports from countries like Vietnam, Thailand, Indonesia, Malaysia, etcetera.

**Moderator:** Thank you. Next question is from the line of Hrishikesh Bhagat from Kotak Asset Management. Please go ahead.

**Hrishikesh Bhagat:** So, my first question is how should we look at this investment in A&P spend now if I understand historically MDF has been largely a B2B or where the product is sold to OEM, so has there been any change in acceptance that we require or in retail level increase in acceptance that we require investment on the A&P spent at least or is it just probably spent to create a platform for probably in future if we want to diversify on the retail, any product on the B2C side?

**Shobhan Mittal:** No, I think awareness in the market for MDF has definitely increased people are now aware of what the product is and now it is no longer let us say a commoditized product and we perceive that going forward a brand would play a very important role in the (A) in the overall business growth and (B) obviously in the pricing premium in the market where we will be able to obtain as opposed



to other competition and the unorganized segment and as a company as we mentioned earlier as well we feel that this trend would bring mileage not only on the MDF business but also on a plywood business as well and hence we were waiting for the right moment and the right opportunity to start this activity and we saw that IPL would be a good platform to initiate this and we started this accordingly.

**Hrishikesh Bhagat:** And secondly, when we spoke about probably somewhere around 7% to 10% difference between imported MDF and domestic this is for which grade of MDF?

**Shobhan Mittal:** So, we are primarily talking about the plain MDF which is the primary product that is being imported into the country and when I say plain MDF it is also the basic grade of MDF which is called the industrial grade. As we mentioned this difference to be around 10% to 20% depending on the geography of where we are comparing, but it would be primarily for the plain MDF.

**Moderator:** Thank you. Next question is from the line of Nikhil Gada from Abakkus Asset Management. Please go ahead.

**Nikhil Gada:** Sir, my first question is on the MDF margins for the quarter can you sort of break it up for us in terms of how much of an impact was because of the mix between exports and the domestic and how much was because of the RM inflation that we have seen in timber prices?

**V. Venkataramani:** See if you look at the mix of domestic and exports like I mentioned in comparison to Q3, the domestic mix was 69 versus 79 in Q3, so that had an impact of approximately 250 basis points on the margins and raw material costs did not have no significant impact on the overall margins, but yes again it would be in the range of about 100 to 120 basis points.

**Nikhil Gada:** And regarding this I understand in terms of the impact of imports, but because of the RM inflation do you try to or you are planning to take any price increase in the market to sort of this arrest this fall?

**V. Venkataramani:** See at the moment I do not think pricing is an issue. We are not looking at increasing prices currently because we have capacity in hand which has to be exhausted before the new capacity comes into production. So, I think primarily we are looking at market share gains rather than increase in prices.

**Nikhil Gada:** And sir just on this guidance for FY24 on 23% to 25% EBITDA margins when you gave the numbers of volume so basically the export mix comes to be 25% for FY24, so this 23% to 25% is this guidance again sacrosanct or do you feel that if let us say the ADD comes in this can go further higher?

**V. Venkataramani:** This is keeping into condition the existing market conditions. So, if there is any sort of new duties coming in on imports, we would definitely be looking at a significant increase in the domestic volumes.

**Nikhil Gada:** Sir I am talking about margins, sorry.

**V. Venkataramani:** Yes, an increase in domestic volumes would have a favorable impact on the margins.

**Nikhil Gada:** Sir my second question is on the Plywood part you mentioned that we are doing some restructuring in the business, could you sort of give some understanding of what we are trying to achieve here?

**Shobhan Mittal:** When we say restructuring basically there in the entire sort of distribution network with regards to how the sales team is operating we are relooking at the entire business model because initially we were not very let us say we were not inclined towards any further investment or substantial material growth in this existing capacity that we had, but now we are of the opinion that this is an important business for us. Our aim is to settle the existing capacities, run it at a consistent full capacity for 6 to 8 months and then we are even inclined to look for opportunities of growth in our existing capacities by way of maybe new investments as well. So, hence we are really looking at the Plywood business model in a different light.

**Nikhil Gada:** Sir, last question the timeline for the MDF expansion, which was I have assumed 2Q FY25, so is still the same timeline or there is some expansion?

**Shobhan Mittal:** Yes, that is very much on track we would start receiving machineries towards the middle of the year. So, the timeline for the new project still stands as initially communicated.

**Nikhil Gada:** And sir just last on the value-added mix if you highlight this 4Q FY23 for MDF versus last year?

**V. Venkataramani:** You are wanting QoQ.

**Nikhil Gada:** QoQ and year over year would be great sir?

**V. Venkataramani:** So, QoQ the mix was about the same it was about 51% share in domestic volumes and 62% in value terms and if we look year-on-year it was 39% in volume terms and 46% in value terms.

**Moderator:** Thank you. Next question is from the line of Monish Godke from HDFC Mutual Fund. Please go ahead.

**Monish Godke:** Sir, why our Plywood realizations have come down on a QoQ basis when you know timber prices are going up?

**V. Venkataramani:** It was primarily because of a change in product mix. Our volumes had come down in the decorative Veneer segment and decorative Veneer realizations are approximately 2.5x the price of normal Plywood sheet. So, that had an impact on the blended realization for Plywood.

**Monish Godke:** And sir what would be our Plywood EBITDA margin for FY24?

**V. Venkataramani:** We are targeting 8% to 10% EBITDA margin for FY24.

**Monish Godke:** And volume growth?

**V. Venkataramani:** We are targeting the double-digit volume growth in plywood.

**Monish Godke:** And sir what is your view on timber prices for FY24 and FY25 for North and South?

**Shobhan Mittal:** We are expecting the timber prices to be stable at the current levels we do not see any major hikes in timber costs in the current financial year.

**Moderator:** Thank you. The next question is from the line of Nikhil Agrawal from VT Capital Markets. Please go ahead.

**Nikhil Agrawal:** Sir, my question was on the export realization they have again like fallen down quarter-on-quarter I believe that is on account of the price cuts that you had taken in December, but like are we seeing any bottoming out of these realizations because like we heard there was some rumor that some player has increased prices in the international market, so are we seeing this bottoming out of the realization?

**Shobhan Mittal:** We already have taken price increases in the export segment ourselves as well, but due to the backlog of orders that we have in our books we will probably start seeing the effect of that from Quarter 2.

**Nikhil Agrawal:** And sir what sort of price hikes have you taken can you quantify that?

**Shobhan Mittal:** Between 8% to 10%.

**Nikhil Agrawal:** And sir currently between the organized and unorganized players what would be the price differential?

**V. Venkataramani:** It is very difficult to mention the price difference between organized and unorganized players primarily because some of the unorganized players do not provide a full invoice to their customer. So, it ranges between anywhere between 22,000 to 25,000 per cubic meter.

**Nikhil Agrawal:** And sir currently like last question what is the demand situation currently how is it planning out in Quarter 1?

**V. Venkataramani:** Demand is reasonably good, so I think we are guiding for the estimates for the current year on the basis of that.

**Moderator:** Thank you. The next question is from the line of Bhavin Rupani from Investec. Please go ahead.

**Bhavin Rupani:** My majority of the questions have been answered I have just one question related to Plywood, so sir as compared to Q4 last year EBITDA per unit has declined from Rs. 6 to Re. 1 in the current quarter, sir can you tell us some of the reasons behind such a sharp drop apart from the decline in volume during the year?

**V. Venkataramani:** So, there were three reasons for the lower margins year-on-year in the Plywood business. The first was the fall in volume the second was increase in the wood cost and the third was we took some inventory losses into account based on based on the prevailing prices in the domestic market. So, all those three factors had an impact on the plywood volumes, but the inventory loss is one off item I do not expect that it will have any impact in future quarters.

**Bhavin Rupani:** Sir, would it be possible to quantify the inventory losses?

**V. Venkataramani:** It would have an impact of about 4% on the Q4 margins.

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

**Rishab Bothra:** Sir, I just wanted to have the full year volumes for MDF both export and domestic and the value as well?

- V. Venkataramani:** So, for the current year domestic volumes we have 3,85,000 and export volumes were 1,22,000 and for FY22 domestic volumes were 3,73,000 and export volumes were 1,22,000.
- Rishab Bothra:** And in value terms?
- V. Venkataramani:** And in value terms domestic sales this year were Rs. 1,287 crores. Export sales was Rs. 247 crores, total was Rs. 1,535 crore and last year domestic was Rs. 1,097 crore, export Rs. 232 crore total was Rs. 1,329 crores.
- Moderator:** Thank you. Next question is from line of Kushagra Bhattar from Oldbridge Capital. Please go ahead.
- Kushagra Bhattar:** Just two questions one is on the margins in the export business, so you said you will come back, but just want some perspective as to right way to think about it so last quarter you said you did around 18,640 per CBM realization and you made around Rs. 1,300 per CBM EBITDA and now given that the prices have come down by almost Rs. 1,200 per CBM for the fourth quarter it would have eaten away majority of the absolutely EBITDA per CBM as well and hence margins would be close to breaking even or negative and is that correct way to think about it and resultant question is that it also becomes your cost for the plain MDF somewhere around 17,500 per CBM?
- V. Venkataramani:** See, if we look at the export business you are correct margins have come down significantly and currently, they are in low single digits, but they would definitely not be negative because we do not take any orders which should have a negative impact on the business and excuse me what was the second part of your question.
- Kushagra Bhattar:** So, effectively if it is in low single digits or probably 1%, 2% only in this particular quarter that also kind of shows that 17,500 per CBM is your cost for plain MDF broadly at current utilization levels?
- V. Venkataramani:** Yes if you take all the costs so it is not just the raw material or the COGS. It includes the entire cost including ocean freight costs clearing and handling expenses and distribution costs. So, if you cover all the costs yes it would be close to that range.
- Kushagra Bhattar:** And that the second question is on one clarification and follow up on that clarification. One is you said 12% to 15% growth, and which implies which is mix of low double digit for the domestic and almost 18%, 20% for the export is that correct?
- V. Venkataramani:** Yes, I mentioned low double-digit growth for the domestic business and 20% plus growth for the export business.
- Moderator:** The next question is from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.
- Rajesh Ravi:** My question pertains to first could you share what was the B2C sales in Q4 and in FY23 the MDF?
- V. Venkataramani:** Could you please repeat that question I could not get you?
- Rajesh Ravi:** B2C retail sales for your MDF in FY23 and in Q4 mix?

**V. Venkataramani:** So, if you look at Q4 it was roughly about 90-10 retail versus OEM and for the entire year I will confirm that later, but I think it would have been approximately between 85% to 83% retail and the balance OEM.

**Rajesh Ravi:** And second coming to the capacities you mentioned 2,50,000 CBM got added in FY23, but are you counting the Greenply and Centuries capacities in that or these are beyond that?

**V. Venkataramani:** No, that I am considering in FY23 to FY25 that is okay. Given the expansion which happened in FY23 I think in almost towards the end of March those I am considering the three-year period from FY23 to FY25 when I said 2.3 million it is up to FY22.

**Rajesh Ravi:** No, the additional in FY23 you mentioned 0.25 million CBM that is what I was trying to understand?

**V. Venkataramani:** No, I was saying that I was not commenting on new capacities. I was saying that the volume growth that we had in the market.

**Rajesh Ravi:** And sir when you are targeting 10% sort of volume growth in the domestic market given that Greenply new capacity has come up and century is also added capacities at least these two capacities will be operational for full year. and given that even imports for available will be for the full year versus four, five months last year what sort of domestic growth numbers that you are looking at, the industry growth whereby you can manage a 10% growth?

**V. Venkataramani:** Yes, we are looking at a 15% growth in domestic volume.

**Rajesh Ravi:** Demand number for FY23 1.75 you mentioned was the demand in FY23, right?

**V. Venkataramani:** I could not get your question could you please repeat that.

**Rajesh Ravi:** What was the demand and growth in FY23?

**V. Venkataramani:** That I mentioned was approximately between 2,25,000 to 2,50,000 cubic meters.

**Rajesh Ravi:** Lastly, if you could just give us one when you say this export realization sir for you this is a FOB or CIF realizations that you book?

**V. Venkataramani:** This is C&F.

**Rajesh Ravi:** Included in that?

**V. Venkataramani:** Yes.

**Moderator:** Thank you. Next question is from the line of Kaushik Mohan from Ashika Stock Broking Limited. Please go ahead.

**Kaushik Mohan:** I just wanted to understand couple of things in your numbers sir this last 12 months capacity utilizations you have given as 74 percentage what are you guiding for the coming years and why was there is a very big dip in the capacity utilization?

**V. Venkataramani:** See there was not really a big dip in capacity utilization so if you are comparing it with earlier years, previously we had a capacity of 5,40,000 cubic meter and

we added 1,20,000 cubic meters in FY22. So, at the moment we are operating you can say at 100% of the capacity prior to expansion, it is not really a dip in capacity utilization we are operating at the old capacity. We have not been able to utilize the additional capacity.

**Kaushik Mohan:** And how about your guidance for the coming years because you have guided on the revenue side it will be on the double-digit side and 15% less, so how about the capacity utilizations?

**V. Venkataramani:** So, assuming we achieve our guidance. So, we would be somewhere around 85% to 86%.

**Kaushik Mohan:** And sir how much will be the average realizations?

**V. Venkataramani:** So, we are looking at stable realizations in the domestic business and like Mr. Mittal mentioned earlier we have already seen an 8% to 10% increase in export realizations in the current year. So, that should have a small impact on the realizations going forward. So, there will be slight improvement in the realizations, but it will be more or less what we achieved in Quarter 4.

**Moderator:** Thank you. The next question is from the line of Hiten Boricha from Sequent Investments. Please go ahead.

**Hiten Boricha:** Sir the first question is on the plywood so you guided a volume growth of double digit in the plywood segment, can you make it more clear what kind of volume growth is it we are looking at higher side of 18% to 20% or somewhere between 12% to 15% which you have guided in the MDF segment?

**V. Venkataramani:** So, it is around 10% volume growth.

**Hiten Boricha:** And sir my second question is on the CAPEX we are doing a CAPEX of Rs. 500 crore which I guess on it is of MDF of 2.31 lakh capacity, so how will our debt look like at the end of the year and what would be a post capacity after concluding this capacity what would be a capacity look like post this CAPEX?

**V. Venkataramani:** We have an existing capacity of 650,000 cubic meters and we are adding another 2,30,000 cubic meters. So, post expansion our capacity will be 8,90,000 cubic meters and this new capacity is expected to be commissioned in Q2 FY25.

**Hiten Boricha:** How will our debt look like by the end of this year?

**V. Venkataramani:** We will be taking new debt for the expansion. So, it will depend on how shipments progress, but I think our gross debt would probably be about Rs. 300-odd crore at the end of FY24.

**Moderator:** Next question is from Sanjeev Goswami from Fractal Capital. Please go ahead.

**Sanjeev Goswami:** Sir, I have couple of questions first if I look at my domestic realization that is still at 80% premium for the export realization. So, the first question is why are we not looking at reducing the prices in the domestic market and capturing the market share at the marketplace before our new capacities come up rather than competing in the export market and reducing the realization?

**V. Venkataramani:** So, cutting prices does not work in the domestic price market, it does not help you to gain additional market share because as soon as one player cuts prices

others follow suit immediately. So, the price cutting formula does not work in the domestic markets.

**Sanjeev Goswami:** So, today the pricing discipline is there because market is dominated by the larger organized players, but you also mentioned there are lots of unorganized players coming up over the next 1 or 2 years, so how do we expect the pricing discipline to stay especially with the unorganized players coming up?

**V. Venkataramani:** There are about 8 to 10 organized players in the MDF segment currently and we do not expect to see too many unorganized players coming into this segment over the next couple of years.

**Sanjeev Goswami:** So, just a follow up on this unorganized player market, can you give some idea in terms of what is the current CAPEX for CBM for putting up a new MDF capacity and what is the minimum economic size just to understand how much is capital the barrier to get into this industry?

**Shobhan Mittal:** Well, you see the project cost per unit of capacity installed definitely has increased in the recent years especially given the Russia-Ukraine war which has resulted in cost of most raw materials in Europe going up. So, it is hard to say what is the let us say economical number because the current market number is where it stands as of today. Most of the plant suppliers are full backlog of order books is close to 2 to 3 years now and as a company we either had to choose to wait for the cost of machinery to come down and let go of growth or take the decision and hence we decided to go ahead with the decision. The decision can result in an additional investment cost of about 10% to 15% as opposed to had this been done maybe 2 to 3 years ago.

**Sanjeev Goswami:** So, my question is more for the perspective like we are putting up 2,25,000 as a new capacity, can somebody put up smaller capacity like 20,000, 25,000, is it possible are the machine is available for that?

**V. Venkataramani:** No, that is not especially with the type of machinery that we use in MDF, 20,000-25,000 plants will never be economical. I think even the smallest Chinese plants today we are talking of capacities maybe of 70,000 to 80,000 cubic meters, but as a Company we are consciously deciding to go with the tried and tested European technology which we have experienced from the very beginning of our business and for that this is a reasonable capacity, smaller for European plants are no longer economical.

**Sanjeev Goswami:** These unorganized plants has put up 70,000 to 80,000 cubic meter of capacity, so they still need approximately Rs. 100 crore kind of capital investment, right?

**V. Venkataramani:** 100 crore I would still say majority of these unorganized plants are not even new, they are bringing in secondhand machinery.

**Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

**Ashish Kumar:** I think for providing a good clarity from whatever I could make out it seems that the market seems to have bottomed out and we are looking at a volume growth back again even the export realizations are going higher, but we also have a cash prices of Rs.185 odd crore how much is the cash balance will be put in the new project in the next 12 months from internal accruals?

**V. Venkataramani:** So, that Rs. 185 crore you mentioned is the net cash balance. So, our gross cash balance was Rs. 335 crore and we expect to put approximately Rs. 300

odd crores in the expansion project. So, while we will be taking some debt for the expansion, we expect to be net debt free in FY25 when the project is completed.

**Ashish Kumar:** No, sir my question was that given the fact that we have such a strong cash flow and even in the probably near the bottom of the cycle we are still making a healthy cash flow of Rs. 45 crore-Rs. 50 crore a quarter, does it make sense to increase either the dividend payout or do a buyback or are we planning some other expansion outside of MDF in a business?

**V. Venkataramani:** We are looking at some projects, but we are very early in the initial stages. So, I do not think we are looking at any major spends over the next two years, but we will have a relook at our cash flows once the project is completed and then decide on what alternatives it can be deployed profitably.

**Ashish Kumar:** But sir from whatever I had seen it seems that we will have substantial additional cash flow, so I would request you if you can have a deeper look in terms of not waiting for the project to get done because most of the orders for the project I would presume would have been given already?

**V. Venkataramani:** That is true, but we do not want to take any risk on the project that we run out of internal accruals and have to go for additional debt for the project. So, that is the reason why I mentioned that we will be taking a look at the cash balance once the project is completed.

**Moderator:** Thank you. Next question is from the line of Arun Baid from ICICI Securities. Please go ahead.

**Arun Baid:** Just one question Shobhan to you we mentioned that the margins should be between 23% to 25% incrementally from next year and in this quarter because the mix was adverse as mentioned export was higher. Adjusting for that our margins would be well over 24.4% to be precise and now export prices are going up from Q2 as you mentioned, so is this margin guidance a bit conservative or am I missing something?

**Shobhan Mittal:** Given the current market conditions we are quite confident of the existing margins. Of course, what we have not factored in certain elements obviously like if any protective measures against imports come in or if the export prices move up drastically then those would contribute positively towards the margins even more so.

**V. Venkataramani:** Plus, we have also factored in the additional brand spends that we will be doing in the current year.

**Moderator:** Thank you. Next question is from the line of Ritesh Shah from Investec India. Please go ahead.

**Ritesh Shah:** Just few questions, sir first is on exports I think one of the earlier questions indicated that we are hardly making any money on export volumes. I just wanted to understand the thought process at what threshold you will say no to exports and rather than that why not push material into the local market? I am looking at some numbers, any threshold that will say no for exports if it is not making money or is it more of a volume gain how should one understand that?

**Shobhan Mittal:** See it is not just a volume gain please understand as Mr. Venkat has mentioned earlier that we have experience in the past where we have said that let us take price cuts because margins are comfortable and that gains market share, but



what we have noticed is that basically all organized players have currently taken price cuts I mean not even with the gap of more than two days, everyone react instantly and all it does is basically reduce the overall realizations of all the companies, but the volumes of all companies remain similar. So, we have experienced this and have consciously decided not to take such actions. Exports are not making us lose money and one of the tangible benefits of doing the exports is it allows us to run our plants at a much higher efficiency both in terms of operational cost and in terms of capacity. So, that also results in higher operating margins for domestic production because the overall cost of production comes down drastically when the volumes are being produced at higher capacity.

**Ritesh Shah:** Sir, I have another question Venkat ji earlier in one of the questions did answer, but the differential in pricing for imported goods has come down to 10%, 12% sir can you give some absolute numbers over here if I had to look at the Vietnam MDF prices, would it be at \$220, \$250 plus freight plus import duty if you could just quantify this number just to get a sense on that 10% to 12% differential?

**Shobhan Mittal:** Current scenario prices are somewhere depending on the country somewhere between \$200 to \$210 per cubic meter.

**Ritesh Shah:** So, there has been no increase over the last three months?

**Shobhan Mittal:** No, there has been a \$5 to \$10 increase I mean these have gone down to about \$185.

**Ritesh Shah:** We went passed the regulatory filings as well as the annual report, sir can you please comment on the sourcing of wood, do we have any plans to get the sourcing FSC certified anytime in future?

**Shobhan Mittal:** So, as a company we are FSC certified, but there are two types of FSC certification. There is a control board and there is a chain of custody because the majority of our raw material is Agroforestry and not natural forest majority as in all of our raw material is Agroforestry. Hence, we can only fall under the control board specification. There is very few sources of timber which are actually FSC certified which are from the Government. So, as per the requirement of FSC certified products when we are selling is when we source FSC certified raw material, but that is primarily a function of the demand of FSC certified finished products, but as a company we are completely compliant with FSC the cycle.

**Moderator:** Thank you. The next follow up question is from the line of Udit Gajiwala from Yes Securities. Please go ahead.

**Udit Gajiwala:** Sir, just one clarification on the import side that we are looking at is without anti-dumping duty with the coming year, what kind of total domestic demand could be catered by imports for the next fiscal if there is no anti-dumping duty?

**Shobhan Mittal:** Well, we have been seeing a drastic increase in imports, but I think at the current levels with the domestic production capacities also going up please do keep in mind that imports are only primarily effective in the coastal areas. North India imports are not such a big threat and North India is one of the major markets for India. So, I do not foresee imports from the current levels going up in a in a very drastic manner. If there is no protection coming in do also keep in mind that international prices are on the rising trend. India is always at the bottom of the ladder when it comes to the preference markets for the foreign producers. So, when prices in the international markets are increasing that

would also result in their focus shifting away from India. So, I do not foresee a major jump in the import volumes coming into India.

**Moderator:** Thank you. Next follow up question is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** Just wanted to check given now Greenply has also started MDF supplies in the market, how do you address is there is any potential confusion in the market or channel partners?

**Shobhan Mittal:** You know I do not think there is anything to address. I think both companies have very clear identities and we treat them just like any other competitor. Most of the MDF networks are not single brand dealers or distributors. They have multiple brands in their fold and Greenply will operate in the same network I am quite sure, but I do not think that would result in any confusion per se. I think both at least in the MDF industry both brands are fairly established, and the industry people are well aware the Greenpanel and Greenply are two separate entities I mean even today in the Plywood business although we are a small player, but we are competing in the same segment and I mean there is no confusion per se.

**Achal Lohade:** In terms of the flooring if you could quantify what is the mix of Flooring in terms of volume and the value for FY23?

**V. Venkataramani:** For Q4 Flooring volume was 1,054 cubic meters, value was Rs. 7.88 crores and realization was 74,789 per cubic meter and if we look at all four quarters volume was 3,929 cubic meters and value was Rs. 27.93 crores.

**Achal Lohade:** This is for Flooring, right?

**V. Venkataramani:** Correct.

**Achal Lohade:** Just one question in terms of the imports have you seen in last month or two March, April and reduction in terms of the import value on month-on-month basis?

**V. Venkataramani:** No, I am not aware of you mean are you talking about volume or value?

**Achal Lohade:** Imports value, value of total MDF imports in India for the month of March and April, are they seeing a decline?

**V. Venkataramani:** No. What I have heard is that there has been some increase in the prices of imports. I have not heard of any decline in pricing.

**Achal Lohade:** Not pricing sir value in terms of if there is a volume reduction compared to the previous months of January, February?

**V. Venkataramani:** No, I have not heard of a volume decline.

**Moderator:** Thank you. Next follow up question is from the line of Shrenik Surendra Bachhawat from LIC Mutual Fund. Please go ahead.

**S.S. Bachhawat:** Basically I am trying to understand on the raw material inflation bit as the capacities in the wood panel space are continuously increasing in plywood and MDF space and the supply of timber is expected to increase at least one year from now as the plantations will grow, so normal expectation of market is that



the timber inflation will continue, but as we highlighted that we expect it to stay at stable at current level, so I could not understand what gives us the confidence that the timber inflation will be stable or soften from here?

**V. Venkataramani:** So, it has been relatively stable over Q4 and month of April. So, I think that is what gives the confidence to say that yes there might be a small movement in prices, but we are not expecting any major movement in prices.

**S.S. Bachhawat:** No, sir I am talking in terms of next one to two years not like for the next quarter, but slightly over the medium term?

**V. Venkataramani:** Plantation activities have started both in Northern and Southern India as all the organized players are aware that raw material is critical for their current and future business plans. So, I think yes and since these trees are fast growing species especially in the MDF segment they are harvested after period of three years. So, we do not expect any major shortfall in the coming years.

**Moderator:** Thank you. Next question is from the line of Ashish Kumar for Infinity Alternators. Please go ahead.

**Ashish Kumar:** I just wanted to understand what is the current gross margin that we are working on in MDF?

**V. Venkataramani:** So, if you look at FY23 gross margin in MDF was 60.9% and for Q4 it was 56% like I already mentioned earlier in the call. Q4 the increase in export volumes had an impact on the gross margins and also the EBITDA margins.

**Ashish Kumar:** And this gross margin includes the cost of labor that we use at the factory?

**V. Venkataramani:** It is only raw material cost.

**Ashish Kumar:** Sir if we look at the contribution what would it be let us say in Q4?

**V. Venkataramani:** So, if you can give me a call tomorrow, I will have the data ready.

**Moderator:** Thank you. Next follow up question is from line of Harsh Shah from Dalal & Broacha. Please go ahead.

**Harsh Shah:** Just wanted to understand if there is any scope of selling value added products in the export market as you said that the Middle East is a big market for exports and we are seeing a huge real estate boom also, so is there any scope of selling value added and if you could highlight any reason why more of plain MDF is being sold there?

**Shobhan Mittal:** We are selling some value-added products in the export market, but that is limited to the let us say the moisture resistant grade of plain MBF. The reason why our value-added products like pre laminated MDF does not go to the Middle East is because the business model there is that there are lot of short cycle producers who are based in the Middle East and who are bringing in the raw board and laminating themselves and the cost model there is basically again like in a very unorganized way. So, it does not work out for us to be able to sell pre laminated MDF. We have done certain percentage small quantities of such sales historically, but it is not a volume business.

**Moderator:** Thank you. Next follow up question is from the line of Kushagra Bhattar from Oldbridge Capital. Please go ahead.



**Kushagra Bhattar:** Just one question on the earlier clarification which I asked, just curious on your high growth expectations from the exports in FY24 at one side just want some perspective because at one side you are seeing increase in imports and at the same time you are preparing for growth in exports, so if we look at Southeast Asian market as a cohort, can you give some perspective on as to how trade is flowing and the difference in the regional focus areas for different players and also given that you are building in for higher exports in FY24 and not expecting significant price increases in the exports as well, what are the driving factors for the margin sustenance or even that higher range of 6,500 to 7500 EBITDA for CBM for FY24?

**Shobhan Mittal:** I did not fully understand what I understand is that what you are saying is that why are we planning on doing for large growth in exports when imports are increasing, is that your question?

**Kushagra Bhattar:** Yes because if you look at Southeast Asian market as a cohort there seems to be some sort of a contradiction because India is seeing increase in imports and at the same time Greenpanel which is the largest player in MDF is preparing for growth in exports from India, so just wanting to seek your perspective as to how you think the trade is flowing in the Southeast Asian market as a cohort and the difference in the regional focus regional areas for the different players in Southeast Asian market?

**Shobhan Mittal:** Well, I think the reason why we are looking at a growth in export is because obviously domestic capacities are on the increase, our own capacities are also increasing and as mentioned earlier we would like to utilize our full capacity export like I said may not directly be contributing with its own pricing, the margin may not be so sort of visible, but it does help us in improving overall operating margins of the company and also given the fact that the new plant capacities are coming in, the new investment of our plant is happening, we would have some EPCG obligations from that point and again there would be a lull period which would take time for us to absorb our entire capacity for the domestic market as we have seen for the Andhra plant. Hence, we would like to keep the export model always ongoing with regards to the pricing in the exports as I said we are always making sure that we are selling at price points where margins it is contributing to and giving us a decent enough margin and at the same time we refuse orders which are not suitable to us where we are not getting any contribution towards margins only export orders.

**Moderator:** Thank you. I now hand the conference over the management for closing comments.

**V. Venkataramani:** Thank you everyone for participating in this conference call and we look forward to your presence in future quarters. Thank you very much.

**Moderator:** Thank you very much. On behalf of Greenpanel Industries that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.