



## Greenpanel Industries Limited Q2 FY24 Earnings Conference Call November 01, 2023

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**Gavin Desa:**

Good day everyone and thank you for joining us on Greenpanel Industries Limited Q2 & HI FY24 Conference Call. We have with us today Mr. Shobhan Mittal, the Managing Director and Mr. V. Venkatramani, the CFO. Before we begin, I would like to state that some statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation that was sent to you earlier. I would now like to invite Mr. Shobhan Mittal to begin proceedings of the call. Over to you, Shobhan.

**Shobhan Mittal:**

Good afternoon, everyone and thank you for joining us to discuss Greenpanel's Operating and Financial Performance for Q2 FY24. MDF sales volume fell by 2%, export volumes grew by 24% while domestic volumes fell by 9%. We have maintained our market share in the retail segment even with the increase in domestic competition. The de-growth in domestic volumes is primarily due to reduction of sales in OEM segment which we had consciously chosen not to service due to the drastic fall in import prices.

We have resumed servicing the OEM segment with a new product offering. MDF EBITDA margins at 21.2% were impacted by steep increase in raw material cost, higher import volumes and increase in domestic competition. Plywood volumes were lower by 19.6% and operating margins at 1.65% were impacted by lower volumes and increase in raw material cost. Plywood realizations at INR 263 per square meter were lower by 12% year-on-year. This was due to lower volumes in the decorated veneers business. We have restructured our plywood sales team to recover market share and to reach optimum capacity, which we foresee in the next few quarters.

Post-tax profits for the quarter was lower by 43.4% at INR 41 crore as compared to INR 72.46 crore in Q2 FY23 for reasons mentioned earlier. Net working capital at 26 days has shown an increase of 2 days year-on-year. We have chosen to be disciplined with our credit terms, which obviously have some impact on our sales since competition is offering attractive credit terms. However, we are clear that we will not grow at the cost of our balance sheet.

Net debt has reduced by INR 14 crore during the quarter and stands at negative INR 179 crore as on 30th September 2023. We paid INR 27 crore towards MDF expansion project during Q2 aggregating to INR 93 crores till date. The entire amount has been spent from internal accruals.

Work is progressing on the expansion project, and we estimate commercial production to be in Q3 FY25.

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

**V. Venkatramani:**

Good afternoon and thank you for joining us to discuss the Q2 FY24 financial performance of Greenpanel Industries. Net sales during the quarter were INR 397.70 crores compared to INR456.11 crores during the year-on-year period. MDF sales fell by 10.3% at INR 354.51 crores and contributed 89% of the top line. MDF export volumes grew by 24% at 33,208 cubic meters. Domestic volumes were lower by 9% at 90,407 cubic meters and overall MDF volumes were down by 2% at 1,23,615 cubic meters. MDF domestic revenues were INR 296.27 crores while exports contributed INR 58.24 crores.

MDF Domestic realizations were lower by 2% year-on-year at INR 32,771 cubic meters while export realizations were lower by 23% at INR 17,538 per cubic meter. Blended MDF realizations were lower by 8% at INR 28,679 per cubic meter. The fall in MDF export realizations was due to price cuts taken in Q3 and Q4 last year and also a majority of exports was invoiced on FOB basis.

Uttarakhand MDF operated at 78% and AP plant operated at 69% with blended capacity utilization at 72% on a capacity of 6,60,000 cubic meters. Plywood sales saw de-growth of 29.2% at INR 43.19 crores. Plywood sales volumes were lower by 19.6% at 1.64 million square meters and the unit operated at 50% during the quarter. Plywood sales realizations were lower by 12% at INR 263 per square meter due to a significant fall in volumes of decorative veneers. Normal Plywood sales realizations excluding decorative vineyards were up by 1% year-on-year at INR 259 per square meter.

In Q2 FY24, gross margin fell by 313 bps year-on-year at 55.5%. EBITDA margins were down by 818 basis points at 19.1%. EBITDA stood at INR 75.88 crores and PAT was lower by 43% at INR 41 crores due to reasons mentioned by Mr. Mittal.

I will now update you on the performance details for H1 FY24. Net sales de-grew by 14.8% at INR 782.84 crore. MDF sales were lower by 11.7% at INR 694.67 crores, while Plywood sales were lower by 33.1% at INR88.17 crore. Gross margins were down by 331 bps at 56.8%. Gross margin in value terms was down by 19.5% at INR 444.68 crores. EBITDA margin was lower by 973 basis points at 18.9%. EBITDA in value terms fell by 43.7% at INR 148.04 crores. Post-tax profits were lower by 47.8% at INR 78.26 crores.

Overall MDF sales volumes were down by 5% at 2,39,413 cubic meters with blended capacity utilization of the two plants at 73% compared to 78% in the year-on-year period. Dispatches for Plywood were lower by 29% at 3.22 million square meters with capacity utilization at 54% compared to 79% in the corresponding period.

Gross debt-to-equity stands at 0.12 as on 30th September 2023 compared to 0.18 as on 30th September 2022. Net debt as on 30th September 2023 stood at INR 179 crore compared to INR 59 crore as on 30th September 2022.

That concludes my presentation. Please start the Q&A session. Thank you.

**Moderator:**

Thank you very much sir. We will now begin the question-and-answer session. We will take the first question from the line of Harsh Shah from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

**Harsh Shah:** Thanks for the opportunity. A few questions from my side. Firstly, how has been the consumption of MDF at the industry level, if we compare H1 FY24 to H1 FY23? If you could quantify, that would be helpful?

**V. Venkatramani:** It's too early to quantify it because the numbers have not come from the other listed companies. But we estimate that there has been a fairly strong growth during the quarter because imports multiplied on an average of about 48,000 cubic meters per month during this quarter. We have been able to maintain our volumes, which we did in Q1FY24. So, since we have not lost any volumes and imports have gone up strongly, we estimate that growth has been fairly good during the quarter.

**Harsh Shah:** So, would it be fair to assume that the growth would be somewhere in double digit?

**V. Venkatramani:** Yes. Possibly, it would have been because, if you look at Q1, imports were on an average between 25,000 to 30,000 cubic meters per month, whereas in this quarter, they have been close to 50,000 per month.

**Harsh Shah:** Okay. Yes. And secondly, now we are kind of almost one month into Q3. So, how has been the demand situation currently?

**V. Venkatramani:** Yes, it's fairly decent. If you look at, you know, the month of October, we have sold about 34,000 cubic meters, which is 9% growth year-on-year.

**Harsh Shah:** Okay. So, do you envisage that there will be sequential growth in the volumes?

**V. Venkatramani:** So, are you asking for the remaining part of the year?

**Harsh Shah:** Yes. Yes.

**V. Venkatramani:** Yes, that's right.

**Harsh Shah:** And in terms of guidance also, I believe you had given in Q1 guidance of, say, close to 12% to 15% growth in MDF volumes. So, are we going to kind of hit that or we would be cutting our guidance? Why I ask this question is because if I look at H1, so, what growth we want is basically 37% over H1. So, is that possible? Even if I take 12% volume growth on FY23 volume, so, is that 37% growth over H1 possible?

**Shobhan Mittal:** At this point of time, I think, safe to assume that's not going to be possible, but we foresee that at the end of the year, we should be about 3% to 5% growth over last year.

**Harsh Shah:** Okay.

**Moderator:** Thank you. We will take the next question from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

**Keshav Lahoti:** Thank you for the opportunity. So, I want to get a sense on the ply segment side. The EBITDA margins are just 2%. What's happening? Why the performance is so poor and when will they pick up?

**Shobhan Mittal:** So, I mean, the first major impact on the margins, of course, is the drastic increase in the raw material cost at the plant level. This is actually beyond the control, and we are foreseeing this across all product categories, whether it's MDF or plywood. The raw material cost especially has gone up drastically.

Of course, at our end, as mentioned earlier also in the previous quarter, that we have completely restructured our plywood sales team and our strategy, and we are seeing some traction going forward over the next few quarters where we will see a much higher utilization which would result in much better margins. At this point of time, the primary reason for the poor performance is underutilization of capacity and the impact of the higher raw material cost.

**Keshav Lahoti:** Okay. Got it. How has been the raw material cost in Q2 on timber side and raising prices and how it is looking in Q3?

**V. Venkatramani:** We have seen an 11% growth increase in wood prices in South India, whereas North has been flattish. And it is difficult to give an estimate of where wood prices can climb going forward because it is a demand and supply factor. But we are not seeing any new capacities coming up, at least for the next four to six months. So, hopefully, there will not be any significant increase in raw material prices.

**Keshav Lahoti:** Okay. Got it. Last two questions from my side. One, the capex on H1 appears to be just INR 50 crore, so you would maintain your capex of INR 500 crore for this year? And lastly, what is the progress on the new OEM strategy which you have talked in this year?

**V. Venkatramani:** You see, like part of the capex could also shift into the next year because there has been some delay in shipments from Germany. But, yes, the overall spend will happen in the current year and the next financial year. But there could be some change in the year-on-year figures. Like I mentioned, I think it will probably be around INR 480 crore to INR 500 crore for the current year. So, that could possibly be slightly lower and part of it could move into the next financial year.

**Keshav Lahoti:** What is the progress on the new OEM strategy which you have planned on lower cost MDF?

**Shobhan Mittal:** We are seeing improvement on that side. Of course, since we started this, let's say, at the beginning of the previous quarter. But the model of the import generally entails long lead times. So, most of the OEMs had already, two months to three months of pre-planned orders in the pipeline and supplies of which are either getting exhausted or at the far end. So, hopefully, in the coming quarter, we should see traction in that sort of strategy as well.

**Keshav Lahoti:** Got it. So, we should expect the new MDF planned by Q4 FY '25 as there is a bit delay on the capex side?

**Shobhan Mittal:** As of now, we are expecting it to be quarter 3.

**Keshav Lahoti:** Okay. Got it. Thank you. That's it from my side.

**Moderator:** Thank you. We will take the next question from the line of Kushagra Bhattar from Old Bridge Capital Management Pvt. Ltd. Please go ahead.

**Kushagra:** The question is on utilization levels. If you can give some color as to how you think about utilization levels with respect to what happened in the first half? And then how do you see them panning out in second half of FY24? Because even at 3% to 4% of growth, which you are thinking of doing in FY24, it implies that your utilization levels in the second half should be 85% to 87% versus 72% to 73% you achieved in the first half. So, how are you thinking about that? That is my first question.

**V. Venkatramani:** That's correct. That's what we are estimating on the MDF side.

**Kushagra:** So, the question really is to understand, like, what led to significant drop in utilization levels? And how it will come back very strongly in the second half. Like, how much of that decision is in your hand and how much of that decision is probably led by the market forces, which lead you to fluctuate your utilization levels?

**V. Venkatramani:** Okay. Like Mr. Shobhan mentioned, we had launched a new offering for the OEM customers in August. But since they had already pending import orders in hand, we did not find much traction in this quarter. So, hopefully, we will see a significant increase in volume from the OEM segment during the next six months. That's the primary reason. And we are also focusing on expanding the distribution network. So, hopefully, that will also lead to some positive results.

**Kushagra:** Got it. The second question is, in your opening remarks, you made a remark on competition offering higher credit. So, can you give some color on the market practices by those players, which is taking the entire market down? And versus Greenpanel, how much of the relaxation they are giving on credit? A broad color word there will be useful. Thank you.

**V. Venkatramani:** Overall, our debtor days are normally lower than 10 days. In this particular quarter, they were around six days of turnover. And if you look at competition, I think probably, most of them would be between 30 days to 60 days. So, the fact that we offer much lower credit than competition, obviously, has some impact on our sales. No, but we are okay on that. We are always focused on converting profits to cash flows. And that will be the strategy, respective of market conditions.

**Kushagra:** All right. Thank you.

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

**Sneha Talreja:** Thank you all for the opportunity. Just wanted to understand a couple of things. You have, of course, changed your guidance on the volume growth front about 3% to 4% on the volume terms for MDF division. Similarly, do we even plan to change the estimates for margins given that we are still lacking behind our initial estimate of 23% sort of a number?

**V. Venkatramani:** See, I have not been able to fully understand your question. But I think you are saying what impact the increase in volumes will have on the margin?

**Sneha Talreja:** No. What I am asking is, do we even plan to reduce our estimate on the margins of MDF? Like we were earlier guiding for 23% to 25%. Would that also see a downward revision?

**V. Venkatramani:** Yes, that's right. So, we had guided for MDF margins in the range of 23% to 25%. Possibly now we are looking at the lower end of the guidance around 22% to 23%.

**Sneha Talreja:** Understood. And secondly, what I wanted to understand was, what was the brand spend this particular quarter? Last quarter, you had a brand spend of 4% and you were planning an overall brand spend of 2% to 3%. I just wanted to see where the number is correct?

**V. Venkatramani:** Yes, I think at the beginning of the year, we had guided for brand spends in the range of 2% to 2.5%. So, I think we will be around that level for the full year.

**Sneha Talreja:** No. What was it this particular quarter, Q2?

**V. Venkatramani:** Yes, there will be brand spends both in quarter 3 and quarter 4. Brand spends in quarter 2 were fairly low. It was about 0.8%.

**Sneha Talreja:** Understood. And last question from my end would be on your exports. We have seen tremendous increase in exports. I just wanted to understand, is that because of the MDF exports quota that we have or is it because of the weak domestic demand that we know we are catering to higher exports at this point of time?

**V. Venkatramani:** It's not really due to that. If you remember, I had mentioned in the Q1 call that about 6,000 cubic meters of exports were stuck at the port. So, that shipment happened in the current quarter. So, that's why we see a significant increase in exports.

**Sneha Talreja:** Understood. That will be helpful, sir. Thanks a lot, sir, and all the very best.

**Moderator:** Thank you. The next question is from the line of Bhavin Rupani from Investec Capital Services (India) Pvt. Ltd. Please go ahead.

**Bhavin Rupani:** Hi, sir. Thanks for the opportunity. So, my first question is on MDF. So, how should one understand the margins in exports? Should we be in mid-single digits or low-single digits?

**V. Venkatramani:** Yes, it's in low-single digits, currently between 2% to 3%.

**Bhavin Rupani:** Okay. And the new category of MDF that we have launched for OEMs, how much quantity were we able to sell in this quarter? And what is our target? And what is the margin profile in that product?

**V. Venkatramani:** It was 12,000 cubic meters in quarter 2. Quarter 1 was pretty low, so maybe it could be around 3,000 to 4,000 cubic meters. And we are looking at approximately 46,000 to 48,000 cubic meters over the next six months.

**Bhavin Rupani:** And what about the margin profile over here?

**V. Venkatramani:** The margin should be about 3% to 4% lower as compared to the normal industrial product.

**Bhavin Rupani:** Okay, so that's helpful. My second question is on MDF expansion. Given the inflationary environment that we are seeing, are you expecting an increase in the project cost?

**V. Venkatramani:** No, at this moment we are not estimating any increase in the project cost.

**Bhavin Rupani:** Okay. And sir lastly, if you could specify what is the current MDF capacity in the industry and how much capacity is coming up in India?

**V. Venkatramani:** Regarding that inflation in the project cost, there could be some inflation due to currency, but that we will be able to calculate only after the project is completed. Beyond currency, we do not see any inflation in project cost.

**Bhavin Rupani:** And, sir, what is the current capacity of MDF in India right now and how much capacity is coming up?

**V. Venkatramani:** Currently, we are about 2.7 million cubic meters, and we estimate that we will move to about 3.5 million cubic meters by the end of next year i.e., FY25

**Bhavin Rupani:** Okay. And the incremental capacities, they are coming up in North or South India? Any idea for that?

**V. Venkatramani:** Yes, it's all coming in South India.

**Bhavin Rupani:** Okay. And any trends on the import parity price, sir? What is the difference between the import price and the domestic prices?

**V. Venkatramani:** It's about 18% to 20% currently.

**Bhavin Rupani:** 18% lower versus domestic prices?

**V. Venkatramani:** Yes, 18% discount to domestic prices.

**Bhavin Rupani:** Okay, that is helpful, sir. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Balaji Vaidyanath from NAFA AMC. Please go ahead.

**Balaji Vaidyanath:** Good evening. I have two questions. First is, I just wanted to understand the sensitivity of crude prices to the import volume? In the last six months, we had the Brent crude prices inching up by 14%, 15%. Whether that's going to have any kind of impact on the imports? Because earlier on, you mentioned that the difference in the parity is about 18% - 20%. So, the Brent compared to May has risen by almost 13%, 14%. Whether that's going to have any impact or there's nothing like that?

**V. Venkatramani:** We have not been able to establish any clear relationship between increase or reduction in crude prices and its impact on raised prices. Because it sometimes happens with a time lag of two months to three months, sometimes six months, sometimes it doesn't happen at all. So, although most of our chemicals are derivatives of crude, we have not been able to establish any direct correlation between crude prices and the raised prices.

**Balaji Vaidyanath:** I'm trying to understand the correlation between the crude prices and the import volumes. If crude prices were to go up, will the import volumes come down and vice versa?

**V. Venkatramani:** No, I don't think so.

**Balaji Vaidyanath:** The second part of the question is, there was a media report which spoke about BIS standard for imported wood panel products. So, I wanted to understand your thoughts on that?

**Shobhan Mittal:** Yes. So basically, from February 2024, BIS on any MDF sold in India would become mandatory. So, all domestic producers as well as imported material would have to comply with this. We foresee this to be a deterrent for imported materials coming into the country because this of course, is the previous process of the foreign manufacturers. Firstly, having to be registered and comply with BIS standards. They will have to make the products as BIS certified. At the same time, we also foresee imported products that are coming into the country, which are, at the moment, not compliant with BIS standards, would have to comply and in turn change the quality.

So, which would result in most probably slightly higher production costs and of course, differentiating their production, especially for the Indian market, which would also result in loss of efficiency on that part, because you'll be producing a different kind of product for the Indian market specifically. Which would result in some efficiency loss on that part, which, in turn, again, would result in cost increases. So, as a domestic producer, we see that this would help us against imported MDF.

**Balaji Vaidyanath:** My final question. I was just going through the PPT and you have mentioned about expansion of the distributor network and retailer network. But if I compare your PPT of last year and this year, there seems to be a reduction in the number of distributors and retailers. So, I wanted to understand your thoughts if you have actually contacted some dealers and distributors or what exactly has happened in?

**V. Venkatramani:** Yes. So, we have not given any dealer numbers for 30th September. Those numbers, if you look at it, it's mentioned as 31st March '23. So compared to 31st March 2022, versus 31st March 2023, we had weeded out some inefficient dealers who were not able to get close to their targets. So, we had removed some inefficient dealers. That's why we saw a fall in the number of dealers.

**Balaji Vaidyanath:** That rewarded closer to the March '22 number as of September when we say or...

**V. Venkatramani:** Those are March '22 and March '23 numbers.

**Moderator:** Thank you. We will take the next question from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

**Kaustav Bubna:** I have been trying to understand this for the last few months. You yourself mentioned the risks that are currently playing out in the MDF industry, namely import competitiveness is back, a lot of supply is coming into the market, right? And let's just see these two things. And I am having a tough time trying to understand how will you be able to maintain realizations at these levels? We have spoken before, and these two factors were some of the main factors provide the previous down cycle, your realizations actually dipped below INR 720,000 a cubic meter. So, I am trying to understand why this time is different? That's my first question?



And my second question is there will be a point in time where you don't see these volatile increases in supply, let's say, five years down the line or whenever because the industry will mature more. So how do you see the industry 5 to 10 years down the line in terms of pricing versus what the pricing is today in terms of realization per cubic meter.

**Shobhan Mittal:**

With regards to realizations, there hasn't been any drastic fall in realization on the retail segment. We have been able to maintain our realization. Also, if you see on the product mix side, there has been an improvement. The domestic producers are increasing marketing focus of the value-added products where imports don't come into the picture of the higher-value products.

So that is also helping in maintaining and going forward, maybe improving realization as well as the value mix. So of course, on the OEM segment if we talk about exports realizations, are lower because that is primarily driven by the international market pricing. And we have to comply with the same because that's the competition international side and other producers. But on the domestic market side, we don't see a challenge of realizations going down and we see going forward that with the value mix changing, it might just improve going forward. Pricing therefore down the line is very hard to estimate, but we can foresee that the market is growing at double-digit 15% to 18%. At this point of time, it's a very peculiar situation because there have been drastic increases in capacities. So, there is like a gap between the supply and the demand at this point of time. But as the demand catches up, this pressure is going to ease off on all producers. Going forward, we foresee that this situation would stabilize the industry would become more consolidated in the hands of the organized producers because capital investment remains a barrier in this industry. We don't foresee this industry moving towards becoming an unorganized segment, let's say, majority players being unorganized like it is in the plywood segment. And I think it would stabilize going forward. At this point of time, with the past lucrative performances of the MDF producers, it attracted a lot of new interest, new and existing players made new investments, but now the situation is becoming real. So, we don't see that this is going to continue. On the raw material side, we've historically seen a lot of these cycles where supply is a constraint. Raw material prices shoot up, plantations are already happening in huge numbers now. We will see easing off of raw material prices also going forward. which would result in stabilized and improved margins as well. So, this is a cycle in the agro forestry industry, which has been there historically and it is just on the cycle in play right now.

**Kaustav Bubna:**

Okay. When you talk about value add, a lot of the low pressure abate producers are basically making these low-pressure laminates in particle board. So, when you talk about value add for an MDF player, what are you really talking about when you said that when you said that MDF players are increasing their value-add offerings so as to separate themselves from import competition. So, are you using MDF as a base to make low pressure average? Is it a lot of HDF flooring, what is this value add?

**Shobhan Mittal:**

It is pre-laminated MDF is already the segment that we are present in. It's definitely a matter of focus for us. But please keep in mind that there is a, I would say, a 60-40 ratio or a 65-35 ratio of Particle Board to MDF in any developed market. So that would always remain. But there are certain segments where plywood is being consumed is not directly replaceable by particle board.

In that case, that is where we are seeing the growth of MDF happening. And when I talk about value add at our end. I am talking about a shift from the standard bread and butter industrial-grade product

to exterior grade, to the high-density water relisting grade, HDWR grade that we produce and the market is moving towards that because that is a product that comes very close to plywood in terms of higher density, water resistance levels are much higher, yet, it is a lot more economical. So, it's a very good let's say, alternatives to plywood. So that is a segment where our realizations are close to 45% to 50% higher than the standard industrial-grade product. We are seeing a drastic improvement in that segment.

**Moderator:** We take the next question from the line of Udit Gajiwala from Yes Securities. Please go ahead.

**Udit Gajiwala:** Firstly, on the realization front, we have seen realization coming down. Do you see this further dropping given in H1, there are multiple domestic capacities coming up in next fiscal and also imports frontage are even if they continue at these levels, you may have to come down because you're coming up with a new grade, which is also a bit on the low-end side?

**V. Venkatramani:** See, realizations have not really come down sequentially. So, if you look at quarter 1, our domestic realizations were INR 32,925 per cubic meter. Which has come down marginally to INR 32,771. So, there has not been any significant drop in domestic realizations. Exports year-on-year, there has been a big drop in realization for reasons which are already informed during the call that we took price cuts aggregating to 12% last year. And secondly, majority of the shipments in this quarter were all FOB basis. So naturally, pricing was lower since the customer was bearing the freight cost. So domestic realizations have been stable till date. And yes, going forward, we estimate that they will continue to be stable. Yes, the new products that we have launched will have some impact on our realizations. But like I mentioned, it will probably be around 25% to 30% of our volumes. And on an average, you would probably be around 10% to 12% lower in realization. So yes, that would have an impact of about 3% to 4% on the realizations.

**Udit Gajiwala:** Right. Sir, this is considering this fiscal, I was more asking that when we go into the H1 of next fiscal, I mean, I'm sure your plant is delayed now by 5 or months. As per your earlier schedule. So, at what point in time do you see the price more again. I mean not the price war might not be the right word, but the domestic prices again contracting because large players are coming up with these capacities.

**V. Venkatramani:** No, we have seen capacity is increasing this year from about 2.2 million -2.3 million cubic meters to now close to about 3 million cubic meters. But there has not been any significant impact on realizations even with the volume of imports increasing significantly. So yes, I think going forward, we'll be able to maintain the realizations because the price cut strategy does not really work because there are just about five organized players in the industry. And as soon as one cut prices, others follow immediately. So, when a price cut strategy will not give you any volume gains. Why would anyone look at a price cut?

**Udit Gajiwala:** Sure. And lastly, on the volume front, I mean, you mentioned 3% to 5% approx. for this fiscal and now that your plant is coming in the Q3 of '25. So, for next year, do you see volumes growing somewhere around 15-odd percent at industry rate or something better than that can be expected in FY25?

**V. Venkatramani:** See the new plant will primarily be focused on the thin MDF, for which there is already a ready market and you don't have any companies in India manufacturing the really thin MDF. So, yes, we should be able to achieve close to 30% to 40% capacity utilization, proportionately during the next financial year.

**Moderator:** Thank you. We will take the next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

**Nikhil Agrawal:** My question was on the BIS regulations that are coming in. Can you quantify the impact of the standards? And, like, I mean, how much will it help in reducing the price differential?

**V. Venkatramani:** As you know, at this point of time, it will not be possible to quantify the impact on volumes. So, it's only after BIS comes into effect and is operational for a minimum of three to four months that we'll be able to gauge the potential impact of its implementation.

**Nikhil Agrawal:** Okay. And do we see imports rising before that the regulations come in? Any possibility of that?

**V. Venkatramani:** It's very difficult to estimate whether imports could increase or not because I thought that 30,000 run rates per month was a fairly big number. And during this quarter, we have seen that going up by almost 60%. So, it's very difficult to estimate whether imports could rise further from this point.

**Nikhil Agrawal:** You mentioned that your October volumes were 34,000 CBM in the domestic market. So, what would your export volumes be?

**V. Venkatramani:** Export volumes were flat at around 9,600 cubic meters.

**Nikhil Agrawal:** Okay. Got it. That's it from me. Thank you so much.

**Moderator:** Thank you. We'll take the next question from the line of Ritesh Shah from Investec Capital Services (India) Pvt. Ltd. Please go ahead.

**Ritesh Shah:** Hi, sir. A couple of questions. First is, if you look at the export margins, they have steadily come down over the last three quarters, so seven, four, and now two to three. So how should we look at it? I think prior quarters you made us understand that it's a question of operating leverage. And that's the reason we push volumes into exports. But there would be a minimum threshold on ROC that we look at when we are looking at exports. So how should we understand this?

**V. Venkatramani:** See, we'll continue with exports as long as we have spare capacity and it's making a positive contribution to the margins.

**Ritesh Shah:** Sure. So, the idea over here is to not push volumes into domestic markets to ensure that there is pricing sanity and hence we are using exports as an outlet. Is that the right way to read it?

**V. Venkatramani:** Yes, that's correct. But, like I mentioned earlier, that even if we used price cut as a strategy to increase volumes in the domestic segment, that may not yield any positive results. So that's why we are not going for that. And, allocated additional volumes to exports.

**Ritesh Shah:** Right, sir. But if I flip it around saying that had we pushed the same volumes in the domestic market, had we sacrificed a couple bits of margins, is still on incremental volumes, we would have fetched a better ROC as compared to exports. So, is it something from an export, market share, local market share standpoint? Or is there an understanding, sanity between the larger players that we would not spoil the market and hence we see the sanity on local domestic pricing?

**V. Venkatramani:** I don't think there's any understanding as such among the larger players. I think it's purely a recognition of the fact that the price war in 2019 did not yield any benefits to any of the manufacturers, because all of them cut prices by almost 20%. I think it was slightly higher. So more than 20%. And it did not give any tangible benefit in volumes. I think that recognition has possibly contributed to sanity around prices during the current year.

**Ritesh Shah:** Right, sir. So, first question is, you indicated import volumes. It has moved up. So, these imports are from which ports? Is it we are looking at Mundra or are we looking at something like Chennai, Paradip? That's the first question.

**Shobhan Mittal:** No, imports are across all ports. West coast would be Bombay and even Gujarat. South would be Cochin and Chennai. So, it's across all zones of India.

**Ritesh Shah:** What I was trying to understand is when you give an import parity differential number of say 20%, is that more for southern India or is it more for northern India? If you can give few separate numbers will be great?

**Shobhan Mittal:** No, the effect of imports would of course be higher when it comes to the port markets. So west of India and south of India are more affected, I would say, because they have large OEMs and because of lower, let's say, ground transportation to get access to the material, imports become more viable. North India, imports are not so prevalent.

**Ritesh Shah:** Sure. This is helpful, sir. Thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Madhav Rathi from Counter Cyclical Investments. Please go ahead.

**Madhav Rathi:** Sir, what percentage of MDF does India import and from which country do we import these from?

**Shobhan Mittal:** The majority of the imports are coming from Vietnam and Thailand. These are the two primary exporting countries of MDF.

**Madhav Rathi:** Okay. And what percentage of the imports that comes into India would be of a lower quality that wouldn't qualify for the BIS norms?

**Shobhan Mittal:** Well, the majority of the imports is actually coming in industrial grade. I would say about 90% of the imports coming into the country is of industrial grade. But every grade has to comply with the BIS norms. So, there are different BIS norms for exterior grade, there are different BIS norms for industrial grade. So, no matter which grade is coming into the country, it would have to in turn comply with the BIS norms.

**Madhav Rathi:** Okay. And, sir, my final question would be, where do we see our plywood business going forward for the next two to three years in terms of top line as well as bottom line? So, like, in your perspective, where can this segment of our business go?

**Shobhan Mittal:** At the moment, our primary focus is to reach optimal utilization of the existing plywood capacity. So, our focus over the next few quarters would be to get this existing capacity reached at the right utilization and the right product mix. After that, of course, we are very keen to grow in this business as well, which could result in further expansion of our capacities, either in the same location or another location. But, of course, the precondition of that would be optimally utilizing our existing capacities and becoming profitable in this business.

**Madhav Rathi:** Okay. Thank you, sir. That was very helpful.

**Moderator:** Thank you. We'll take the next question from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

**Ashish:** Sir, on a slightly different note, we've been hearing about this increase in timber prices for the last few quarters. So, let's say compared to a year back, how much would have the timber prices gone up by? And second is, when do you expect them to normalize given all the plantation activities that you guys are doing? How long do you think it will take?

**V. Venkatramani:** Okay. So, it's been a different situation in the north of India and in the south of India. So, if we look at north of India, there has been roughly a 10% increase in timber prices over the past one year. And if we look at south of India, I would say the price increase has been around 30%.

**Ashish:** Is this 30% increase you think is reversible over the next one or two years as your plantation activities start yielding fruit, or do you think this is permanent?

**V. Venkatramani:** Plantations which were done in 2023 will be harvested in 2026. So, I think we can see some moderation in wood prices during FY26 and FY27.

**Ashish:** Because, without that, I think fundamentally the whole industry kind of becomes non-competitive given the fact that imported landed prices are 20% lower than what we are selling. So, they will continue kind of gaining market share until we can get our timber prices down?

**V. Venkatramani:** 3.5 million cubic meters, that is visible currently. Right.

**Ashish:** Okay. Thank you, sir.

**Moderator:** Thank you. We will take the next question from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

**Keshav Lahoti:** Sir, one follow-up question from my side. So, what we have seen normally, particle board industry was pretty unorganized. But now the bigger players are bringing the particle board capacity, which will be more of a prelam board which they will be making. My understanding is normally prelam

particle board is 20% to 25% cheaper versus prelam MDF. So, whether the prelam particle board can be used in place of the MDF? So how can the industry's dynamic change because of that?

**Shobhan Mittal:**

As I mentioned earlier, you know, particle board has its limitations. So, in any given form of consumption, whether it's furniture or interiors, there are certain applications which can be done with particle board, but certain has to have MDF usage. So, if you ask me, can MDF replace particle board in terms of its usage? Yes. But can particle board replace 100% of MDF usage? It can't. So, they sort of go hand in hand. Even historically particle board has always been existing in India. Prelam particle board, majority of the producers focus on producing prelaminated particle board because it's not economical and viable to only sell plain particle board. But at the same time, the prelaminated MDF market size is growing.

**Keshav Lahoti:**

Okay, got it. Can you give a broader idea about what I understand, MDF is here to stay, of course. Particle board can't replace all the things what MDF is used for. But what would that number look like where particle board can replace MDF? So, but historically there were no quality players producing particle board, which is going to change in next one-to-two-year time?

**Shobhan Mittal:**

Actually, I don't think even today there is a replacement happening of particle board with MDF, primarily on account of the cost involved. Because thumb rule, MDF would be about 30% to 35% more expensive than particle board. So, we don't foresee that with organized players coming into the particle board segment would result in, a shift of MDF consumption to particle board.

I think what would happen is that the organized players of particle board may be able to gain market share from the unorganized segment of particle board. But it is not going to directly compete with MDF because they both play at different price points and different usages. Any OEM would be consuming both MDF and particle board in complement because they both go sort of hand in hand. Certain applications like the tabletop would be made in particle board, but the rest of the carcass would be made in MDF.

**Moderator:**

Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

**Rahil Shah:**

Good evening. In the last call you had mentioned, with regards to the plywood, you said you expect 10% growth with 8%, 10% margin. So, are things still looking the same with that regard or any changes there?

**V. Venkatramani:**

No. If we look at the performance during the first half of the year, it's clear that we are not going to see any growth in plywood this year. So, I'd say at this point of time, the best thing we can look at is status quo as far as growth is concerned.

**Rahil Shah:**

Sorry, can you please repeat the last sentence? What can we expect?

**V. Venkatramani:**

Yes, that means, I said that the best case at this point of time looks like, we do the same volumes as we did last year.

**Rahil Shah:** Okay, as last year. Okay. And from an overall consolidated level, so, given that you will be now catering to the OEMs with a low-cost value-add product, in terms of revenues and margins, can you still do similar 10% growth as seen in FY23, in this year, FY24, with similar margins?

**V. Venkatramani:** You are speaking on the MDF side, right?

**Rahil Shah:** No, overall, like, consolidated overall business level.

**V. Venkatramani:** No, we won't be able to do a 10% growth. Like Mr. Mittal mentioned, we are looking at a low to mid-single-digit growth in MDF and status quo on the plywood side. So, I think, yes, with significantly lower realizations in MDF exports, you will not see any growth this year.

**Rahil Shah:** So, likely to be flat then. Okay. Thank you.

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

**Arun Baid:** Just one clarification. The new plant is going to come in Q2 or Q3 of next year?

**V. Venkatramani:** Q3 next year since there have been some delay in shipments from Germany. So, at this point of time, we are behind by about 2 to 3 months as far as the shipments are concerned. So, instead of Q2, we are looking at Q3 next year.

**Shobhan Mittal:** Arun, best case scenario would be end of Q2 or early Q3.

**Arun Baid:** Okay. And Venkatji, in one question, you answered that on this new capacity, which is a thin MDF you're going to go through, you were saying that proportionately we'll be using around 30% to 40% of capacity. So, ballpark, if I assume six months of operations, on 230, your capacity would be 150. And roughly, if I assume 30 to 35%, ballpark 40,000 CBM additional, volume from the new plant for FY25, is that the right way to look at things?

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

**Arun Baid:** So, next year, assuming these 40,000 tons, then we will be on a blended basis at least doing 15% volume growth for the next year, FY25, assuming, you know, what you have said for the new plant.

**V. Venkatramani:** Yes, that would, to some extent, depend on where we finish this year. But looking at our guidance for this year, Yes, we could reasonably look at that kind of growth for next year.

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

**Shobhan Mittal:** We thank everyone for joining this call. We look forward to speaking to you again post the next quarter results. And if anyone has any questions, feel free to contact us. Thank you and have a good evening. Thank you, everyone.

**Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Greenpanel Industries, that concludes this conference. We thank you for joining us.