

GIL/2016-17  
August 4, 2016

**The Manager**

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**The Manager**

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Symbol - GREENPLY

Dear Sir/Madam,

**Sub: Conference Call Transcript**

Please find enclosed Conference Call Transcript in respect of conference call for Investors and Analysts held on 25<sup>th</sup> July, 2016 on the un-audited financial results of Greenply Industries Limited for the quarter ended June 30, 2016.

The same is also available on the website of the Company viz. [www.greenply.com/investors](http://www.greenply.com/investors).

Thanking you,

Yours faithfully,

**For GREENPLY INDUSTRIES LIMITED**



**KAUSHAL KUMAR AGARWAL  
COMPANY SECRETARY &  
VICE PRESIDENT-LEGAL**

Encl: As above

**Greenply Industries Limited**

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## Greenply Industries Limited

### Q1 FY17 Earning Conference Call Transcript July 25, 2016

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**Moderator** Ladies and gentlemen, good day and welcome to the Greenply Industries Limited Q1 FY17 earning 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. If you need any assistance during the conference call please signal an operator by pressing \* then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you sir.

**Gavin Desa** Good day everyone and thank you for joining us for the Q1 FY17 earnings call for Greenply Industries. We have with us today Mr. V. Venkatramani, the CFO. Before we begin, I would like to state that several 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 result presentation that has been sent to you earlier. I would now invite Mr. V. Venkatramani to begin proceedings of the call.

**V. Venkatramani** A very warm welcome to everyone present and thank you for joining us today to discuss Greenply's operating and financial performance during the first quarter of FY 2017.

I will talk briefly about the performance of our business before taking you through the numbers for the quarter. While we continue to witness a consolidation we have delivered a decent growth across both Plywood and MDF businesses. We are steadily expanding the distribution network of our newly launched Wallpaper business with increasing acceptance. Our Plywood business has achieved better sales and improved margins due to better capacity utilization, cost control, cost reductions, improving manufacturing efficiencies and product quality. The quarter witnessed higher capacity utilizations with slightly lower realizations since our Rudrapur Plywood unit has come out of excise exemption with effect from 2<sup>nd</sup> May, 2016. We have been able to maintain our market share and grow our volumes.

On the MDF business our volumes continues to grow, given the increasing acceptance of the products leading to higher capacity utilizations. Going forward we hope to improve volumes further with the recent imposition of Anti-Dumping Duty on imports from Indonesia and Vietnam. We are happy to inform that land development work has started in Andhra Pradesh for our new MDF Plant which will provide the necessary impetus for future growth.

Moving on to financials, Greenply delivered a topline growth of 9.3% in Q1 on a year-on-year basis. Growth has come on the back of a better performance by the Plywood business which grew by 7.7% year-on-year while MDF has grown by

11.4% year-on-year reflective of the overall industry consolidation and preference for our brands.

Average realization for Plywood has reduced due to the end of excise exemption at Uttarakhand Plywood Unit with effect from 2<sup>nd</sup> May, 2016. And MDF realization has marginally decreased over the previous quarter owing to exports. MDF exports for the quarter was 3,472 cubic meter at an average realization of Rs. 17,279 per cubic meter.

Our gross margins have improved on a quarterly basis by 110 basis points to 45.6% due to increasing capacity utilizations and improving operational efficiencies. We continue to invest in brand building which in turn enables us to maintain our market share. Our ad expenditure to sales in Q1 was 3.3%, an increase of 34.6% in value terms which has helped in improving the brand recall.

EBITDA margins have improved by 80 basis points at 15.5% for the quarter. Efforts to improve the gross margins have paid off at the EBITDA level. Our capacity utilization in Q1 were higher at 111% for Plywood and 106% for MDF compared to 95% in Plywood segment and 92% in MDF segment in the year-on-year quarter.

PBT growth for Q1 was higher by 29.5% at Rs. 46.3 crore and PAT growth was 26.4% at Rs. 34.11 crore due to increase in tax rate from 23.85% to 26.4%. Tax rate has increased since the Rudrapur Plywood Unit has also come out of corporate tax exemption which was applicable till last year.

Our Working Capital turnover has reduced by 17 days' year-on-year to 47 days and three days on a sequential basis owing to a more efficient management of inventory and creditors. We will be focusing our efforts to reduce working capital investment in debtors. We are well positioned in the marketplace and looking forward to improve performance in future quarters with Anti-Dumping Duty now imposed on imports from Indonesia and Vietnam and expected implementation of GST.

That concludes my presentation. I would now request to the moderator to open the floor for the Q&A session.

- Moderator** First question is from the line of Nehal Shah from ICIC Securities.
- Nehal Shah** How has been the growth in Ecotec both in terms of volumes as well as value? Second is the sustainable tax rate for the full year?
- V. Venkatramani** On the Ecotec side we had a volume growth of close to 10%. Realizations were down by 3% compared to the year-on-year quarter. Our tax rate for this quarter was around 26.4% but for the full year I estimate that the tax rate could increase probably to a maximum of 28%.
- Nehal Shah** What has been the sales growth in Ecotec?
- V. Venkatramani** Ecotec sales were Rs. 61.34 crore in this quarter compared to Rs. 57.74 crore in the year-on-year, so approximately about 6%. But then it has to be viewed separately because earlier last year our Bwr Ecotec sales were considered in the trading segment which was shifted to the manufacturing segment. So possibly if we exclude the Bwr Ecotec sales from the last year's numbers the growth would have been closer to 16-17%.

- Nehal Shah** So even if we include Bwr as well then Year-On-Year growth in Ecotec as a brand would be close to 16-17%?
- V. Venkatramani** True.
- Moderator** We have next question from the line of Gunjan Prithyani from JP Morgan.
- Gunjan Prithyani** On this Plywood growth we have seen some improvement at the margin. Is there any change you have seen on the ground and how are you seeing FY17 in terms of growth for this segment? I missed your point of 16% growth which you mentioned just now, if you could just give some sense on that? And secondly if you could tell me about the Working Capital because there seems to be significant reduction there, what's the main driver for that?
- V. Venkatramani** Your first question regarding the environment, so the demand environment continues to be as challenging as it was in the earlier quarters. I don't think we are seeing any improvement at all as far as the demand conditions are concerned. Regarding your question on Ecotec, in Ecotec there are two segments, we have Bwr which is premium and MR which is the low-mid segment. So till the first quarter of last year our Bwr Ecotec sales were also outsourced and later on to have better capacity utilizations at our manufacturing units we decided to shift Bwr Ecotec from outsourcing to manufacture. So because of that growth in this quarter is 6.2%. Now if we remove Bwr Ecotec from the last year's numbers then growth would be about 16-17%.
- Gunjan Prithyani** That is the lower end MR?
- V. Venkatramani** Yes, mid-segment Plywood.
- Gunjan Prithyani** Why have been the realizations under pressure in Plywood this quarter?
- V. Venkatramani** Realizations have been lower in this quarter both on Plywood as well as MDF. Reasons are different. Uttarakhand Plywood Unit has come out of excise exemption with effect from 2<sup>nd</sup> May, so since we are giving realizations on a net basis after reducing excise duty so there has been a significant fall in realizations, I would say almost close to 4%. So if we remove that impact then the realizations would be possibly lower by about 0.5% sequentially. On the MDF side we have started exporting MDF which is at a lower realization compared to the domestic business. Last year in first quarter there were no exports, in this quarter we exported about 3,472 cubic meters at an average realization of 17,277 which is significantly lower than our normal realizations of plain MDF which would be close to 24,000, so that has impacted the realizations.
- Gunjan Prithyani** Why are we exporting? Since the demand in the domestic market was fairly good and we are anyways operating at fairly high capacity utilizations in this segment, so why just not cater to the domestic demand which is in fact better margin demand for you?
- V. Venkatramani** Our Andhra Pradesh MDF Unit will commence production in the middle of FY19. We are estimating that it will start the production somewhere around September-October 2018. So it's a very large plant. We will be producing approximately 3,60,000 cubic meters in that plant. The domestic markets may not be able to absorb the full capacity of this plant in the initial 4-5 years. So we have taken the decision to export significant quantum of our production at the new plant for the first 4-5 years, probably in the range of about 30-40% of the production of that plant. would be exported in the initial 4-5 years till the domestic markets are able to

absorb the increased capacity. So at the moment when we are exporting from Uttarakhand Plant, land freight from Uttarakhand to Mumbai Port is prohibitively expensive, it's approximately 25% of selling price. Our realizations are getting significantly impacted and I don't think we are making any margins at all in this export business but we have to build the customer and the distribution network for the future when the new plant starts, so we have decided to export approximately 2000 cubic meters every month to create the customer base for the new plant.

**Gunjan Prithyani** Was there any regulatory issue or ban in terms of Face Veneer import into the country over the last couple of months from Laos or any other geography?

**V. Venkatramani** I probably heard that they are not permitting exports of Face Veneer from Laos. I do not have a detailed report because we are not present in Laos. On Myanmar also we are getting reports that Myanmar might either reduce felling of timber or they may impose a ban on felling on timber but at the moment we do not have any detailed guidance from Myanmar as to what process they are going to adopt in future.

**Gunjan Prithyani** But if there are any regulatory headwind coming through, how are we placed on that?

**V. Venkatramani** We are planning to set up a Face Veneer unit in Gabon in West Africa. We have got the approvals in the last Board Meeting to do a survey and also work on the Capital Expenditure for the new plant. So over the next 3-4 months we will be finalizing that and then probably if the financial considerations are acceptable then we would set up a Face Veneer unit in Gabon.

**Moderator** We have the next question from the line of Gaurav Sanghvi from Bajaj Allianz.

**Gaurav Sanghvi** My question is related to MDF segment, given now that there is an Anti-Dumping Duty in place, we were not significantly present in South market, so what's your view now in the South market given on the backdrop of this Anti-Dumping Duty?

**V. Venkatramani** We have to see the impact of Anti-Dumping Duty for at least a quarter before I can give you a detailed reply but my preliminary assessment is that it might help us to improve our volumes in the Southern market especially in the Industrial Grade MDF where we were unable to compete with imports in the Southern markets because of our significant freight disadvantage. But I would probably be able to give a more detailed reply in the next quarter.

**Gaurav Sanghvi** Second question is on the Anti-Dumping Duty Circular. If we look at there are a couple of players for which government has kind of not imposed any duty like a 0%, whereas broadly excluding 2-3 players the duty is around 14%. So are these 2-3 players contributing materially sales to India, if you can just throw some light on that?

**V. Venkatramani** Could be either of two reasons, either they have submitted a costing and been able to establish that they are not selling below cost or they might be contributing a very miniscule quantity to the Indian imports, so they have been kept out of the purview on the ban.

**Gaurav Sanghvi** But does this affect us significantly?

**V. Venkatramani** It is a very recent development so it is very difficult to assess the impact. So that's why I said I will probably be able to give you a better response in the next quarter

conference call. We will have to watch the situation at least for a couple of months before we can determine the impact it will have on the Indian MDF markets.

**Gaurav Sanghvi** If you can give a broad view on the MDF market and what's your outlook, are you seeing some improvement on the ground level and your thought on the GST coming into place for the Plywood market?

**V. Venkatramani** As far as the demand conditions are concerned, they continue to be challenging both for Plywood and MDF. We have not seen any improvement at all in the demand conditions over the past couple of years. I think we will have to see the improvement at least for a period of two quarters before we can comment that there is an improvement in demand.

**Gaurav Sanghvi** The question on this Plywood market, there is an expectation that if GST gets passed there would be a significant benefit to the unorganized player to pay the tax and the advertisement expense will also get full credit. So if you can just throw some light?

**V. Venkatramani** GST is expected to be favorable for the branded Plywood manufacturers primarily because of change in the taxation structure. At present when a dealer purchases Plywood from Greenply he pays Central Excise Duty and a Value Added Tax. The Excise Duty is a cost for the dealer he does not get an input credit for that and he gets an input credit for the VAT paid to the manufacturer. Now when GST is implemented both the Central GST which will replace Excise Duty as well as the State GST which will replace Value Added Tax will be Cenvatable for the dealers. So straightaway his cost of purchasing from organized branded players will come down by about 10% assuming that the 12.5% Excise Duty is retained as 12.5% Central GST. Now coming to the second part of your question regarding the unorganized players, practically they do not pay Excise Duty by maintaining their annual turnover below Rs. 1.5 crore which is exemption sealing for payment of Excise Duty. Now when GST is implemented this exemption limit will be 1 million per annum, so it will be very difficult for a manufacturer to maintain its Annual turnover below 1 million. So most of them would fall into the tax net although we estimate that they would still not be paying probably more than 25-30% of their actual taxation but still their cost will increase so that will help to further reduce the price gap between branded and unbranded. Hence we estimate that possibly the price gap could come down to somewhere between 6-8% once GST is implemented. So if the price gap is very small that could enable a significant shift from unbranded to branded.

**Gaurav Sanghvi** What is the price gap currently?

**V. Venkatramani** It varies between 15-20%.

**Gaurav Sanghvi** So effectively what we are saying is currently organized players are paying 12.5% excise and 12.5% tax, so effectively organized players basically are paying 25% tax whereas the unorganized player would be playing roughly 12-12.5% tax because they are not paying excise, right?

**V. Venkatramani** Or maybe even lower.

**Gaurav Sanghvi** So effectively because after that they have to pay the tax, so.....

**V. Venkatramani** They would still not be paying 100% taxation but even if they pay say 30% of their taxes it would still help to reduce the price gap.

- Gaurav Sanghvi** So this is the 10% direct benefit on the state. What I understand is, if you can correct me if I am wrong, on the Advertisement spend also currently majority of the companies are not getting full credit, so if you can just throw some light on that?
- V. Venkatramani** We get full credit for our Service Tax paid on our Advertisement bills.
- Gaurav Sanghvi** There we won't see any.....
- V. Venkatramani** No, we won't see any traction there.
- Gaurav Sanghvi** So mainly it's an excise benefit.
- V. Venkatramani** Sure.
- Moderator** Next question is from the line of Baidak Sarkar from Unify Capital.
- Baidak Sarkar** I am trying to understand as you mentioned that the operating scenario doesn't look good and we also saw there has been some drop in the average realization. For the rest of the year is there any further threat to even these levels of realizations, any pressure you expect on these?
- V. Venkatramani** Like I mentioned pressure on realizations did not come because of market forces. It came because our excise exemption at the Uttarakhand Plywood Unit has come to a close.
- Baidak Sarkar** So adjusted for these excise benefits would you say your realizations have been flat or slightly better?
- V. Venkatramani** I would say its flat or marginally negative, I would estimate it would probably be about 0.5% lower than the sequential quarter.
- Baidak Sarkar** Coming to the fact that you have mentioned a couple of times that operating sentiment is still weak but in terms of actual volume dispatches we haven't done all too badly, so if you could give us a sense what is driving this volume push and what kind of volume growth you expect for the rest of the year?
- V. Venkatramani** I think I would stick to my guidance that we would probably look to a 7-8% growth in volumes this year, so I don't see any change in the environment which would enable me to give a more optimistic response. I still think that we would probably finish with a growth rate of somewhere around 7-8% for the full financial year.
- Baidak Sarkar** This is for both the segments put together, MDF and Plywood?
- V. Venkatramani** Both the segments put together.
- Baidak Sarkar** So which actually means that in the coming quarters there could be some deceleration?
- V. Venkatramani** There could be, like I mentioned, that was the guidance I gave at the beginning of the year, so at the moment I am not seeing any change which will enable me to increase the guidance.
- Baidak Sarkar** Coming to your gross margin there's been a little bit of expansion. Has this come from better sourcing efficiencies, I am just trying to understand that what led to the gross margin expansion?

- V. Venkatramani** It is a mix of factors. I would say our gross margin improvement has primarily come on the Plywood segment because in MDF we were having pretty good operating margins. So if we compare over the last one year I would say the improvement in gross margins has come both in Plywood as well as MDF although there has not been any significant improvement in realizations. I would say probably the better capacity utilizations in this quarter contributed to the better gross margins.
- Baidak Sarkar** Do we have enough levers in the system, apart from volume growth, to kind of maintain the gross margins at these levels?
- V. Venkatramani** I think we will be able to maintain the gross margins at this level. At this moment I am not seeing any reasons, unless the demand conditions deteriorate further and capacity utilizations fall significantly, I think we will be able to maintain the margins.
- Baidak Sarkar** In terms of demand environment being weak but you managed to improve your dispatches, so I am just trying to understand the extra efforts you have been working on your channel in terms of deepening it that is helping you do this.
- V. Venkatramani** I think it's a mix of different factors, over the last one year our product quality especially on the Plywood side has seen significant improvement. That has increased the confidence level of the dealers; we are seeing better lifting as compared to year-on-year.
- Baidak Sarkar** This year the monsoon has been pretty decent, high moisture content in each of your products has resulted in better realizations?
- V. Venkatramani** It did not have a significant impact on the Plywood side. We are comparing year-on-year so we had the same benefit last year also regarding the low moisture content in wood, so that same advantage was also available in the year-on-year quarter, so that has not really helped in improving the gross margins or the operating margins.
- Baidak Sarkar** On MDF given that our imports don't get into the mainland because of duty protection that we have. I am just trying to understand how exactly are we competitive in the export region?
- V. Venkatramani** It is not because imports are not competitive in the interiors, because you said?
- Baidak Sarkar** I just want to understand that MDF currently has an import barrier. We have import duties on MDF,?
- V. Venkatramani** Yes,.
- Baidak Sarkar** So I think the import duty barrier not being there, I am sure there would have been a lot of dumping from China and our competitiveness of not just Greenply but the entire local manufacturing industry might be at risk in terms of the realizations, is that a fair assumption?
- V. Venkatramani** Till now Anti-Dumping Duty did not have any significant impact on volumes since Indonesia and Vietnam were not covered by Anti-Dumping, imports basically changed from China, Malaysia, Thailand and Sri Lanka to Indonesia and Vietnam. So there was shifting of imports from countries which were impacted by the Anti-Dumping Duty to countries which were not covered by Anti-Dumping Duty. So till now we have not seen any benefits accruing from Anti-Dumping Duty. Now that all the six Southeast Asian countries are covered by the Anti-Dumping Duty we might see some benefit in future of the Anti-Dumping Duty.



- Baidak Sarkar** This new duty is on all grades of MDF,?
- V. Venkatramani** It's on the thick MDF, so above 6 millimeters, it's not applicable for the thin MDF.
- Baidak Sarkar** So our capacities would be in which range, 6 and above, or what?
- V. Venkatramani** I would say probably about 70% of our manufacturing would be in the thick, about 30% in thin. On the second part of a question regarding our competitiveness in exports, so we will be primarily exporting to countries which do not have their own MDF manufacturing capacities like Middle East countries and some of the neighboring countries like Bangladesh, Pakistan, Bhutan, etc. So there we will be competing against other Southeast Asian manufacturing countries. In fact our freight cost to the Middle East would probably be lower than say Thailand or Indonesia because we are closer to the Middle East than those countries. And in terms of quality our MDF which is manufactured on a European Plant is superior to the quality of those countries. So probably if we maintain the price parity we will get an advantage in terms of orders over those countries. Hence we will be quite competitive with the other countries on the export markets.
- Baidak Sarkar** Given that our competitors are also beefing up their capacities in MDF, when the entire supply hits the market do you foresee a glut in a sense that how much India can absorb and then the rates to export out of India? Do you see that happening?
- V. Venkatramani** It's again a difficult question to answer at the moment so I'll explain our strategy to you. We think that MDF will continue to grow at about 10-15% over the next 3-4 years and we are looking both at replacing imports because once we are located in Andhra Pradesh we will be able to effectively compete against imports since our freight cost will come down from about 12-13% currently to about 4-5%, that will enable us to compete effectively with imports. We will also have an advantage in exports because of the product quality. So although it's very difficult to give an opinion on how much of an overcapacity there will be in the MDF market after a period of three years, time alone will tell but I think our strategy of imports replacement, selling in the export markets and expanding our distribution network should help us to have reasonable capacity utilizations in the MDF business.
- Baidak Sarkar** Would you have a ballpark estimate of how much of South Indian MDF capacity is catered to by imports today?
- V. Venkatramani** Significantly because there is only one small manufacturer Rushil Decor who is based out of Karnataka, all the other MDF manufacturers are based in Northern India except Mangalam which is based in Orissa, so a significant quantum of the Southern markets is catered to by imports currently.
- Baidak Sarkar** In terms of the capacities coming up apart from you which is there in Andhra, anybody else which is coming up in South India?
- V. Venkatramani** I have heard that Rushil would be expanding capacities in their plant. I don't have any official confirmation of that.
- Baidak Sarkar** I noticed construction hasn't yet started, any significant regulatory delays that we are facing?
- V. Venkatramani** No, we are not facing any delays on the regulatory front.
- Baidak Sarkar** So by when do we expect the paperwork to be completed and construction starting?

- V. Venkatramani** The work has started. Like I mentioned, the land development work has started and probably in the next quarter we will also start the civil construction and the equipment should start arriving around December-January. So we would be able to have smooth progress on the construction side, I don't anticipate any regulatory delays.
- Baidak Sarkar** So our MDF funding plan continues to be at about 250 crore for debt and about 350 by internal accruals, is that a right number?
- V. Venkatramani** Like I mentioned in the last call also we had revised the estimate upwards, like mentioned the total project cost is Rs. 700 crore so we will be raising about Rs. 450 crore from debts, Rs. 50 crore from equity issue and about Rs. 200 crore from internal accruals.
- Baidak Sarkar** How far is our plant from Amravati?
- V. Venkatramani** I would not know from Amravati, it is about 60 kms from Tirupati.
- Baidak Sarkar** So is it towards Chennai or is it towards the north of Tirupati?
- V. Venkatramani** it's approximately about 150 kms from Chennai.
- Moderator** The next question is from the line of Aman Batra from Goldman Sachs Asset Management..
- Aman Batra** On the MDF side, you said you are not making any money on the MDF exports, so how long you think this would continue that you would not make money, you need scale or the new plant to come up and to start making money?
- V. Venkatramani** I think we will not make any money till we start exporting from the new plant. Once new plant starts production we will completely stop exports from Uttarakhand, so till that time, estimate roughly for the next 24 or 26 months, we will not be making any money on MDF exports.
- Aman Batra** On the gross margin side, is there any kind of commodity benefit in terms of the phenol's cost reduction which is playing into the margins as well?
- V. Venkatramani** Yes definitely especially on the MDF side where chemicals contribute approximately 35% of the total raw material cost. We are definitely getting benefits on the raw material term because of fall in crude prices and all these chemicals are derivatives of crude, so we have got benefit on the raw material side.
- Aman Batra** Similar thing would be on the Plywood side as well?
- V. Venkatramani** Not much because the quantum of chemicals in Plywood is much lower. Like I mentioned it's about 35% in MDF and about 20% in Plywood, so no significant advantage on the Plywood side.
- Aman Batra** You are saying 35% of the RM cost?
- V. Venkatramani** Right.
- Moderator** Ladies and gentlemen, that was the last question for today. I would now like to hand over the floor back to the management for their closing comments, over to you sir.

**V. Venkatramani**

Thank you very much for taking out time to attend this conference call and I look forward to hosting you again on the call for Q2 results.

**Moderator**

Thank you very much, sir. Ladies and gentlemen on behalf of Greenply Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.