GIL/2018-19
August 18, 2018

The Manager
BSE Limited
Department of Corporate Services
Floor 25, P. J. Towers, Dalal Street
Mumbai - 400 001
Fax No. 022-2272-3121/1278/1557/3354
Security Code: 526797

The Manager
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E)
Mumbai - 400 051
Fax No. 022-2659-8237/8238/8347/8348
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 August 8, 2018 on the financial results of Greenply Industries Limited for the quarter ended 30^{th} June, 2018.

The same is also available on the website of the Company viz. 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
Q1 and FY19 Earnings Conference Call
August 08, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Greenply Industries Q1 FY19 Earnings Conference Call. As a reminder, all participant 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, Sir.

Gavin Desa: Thank you. Good day, everyone and thank you for joining us for Greenply Industries Q1 FY19 Earnings Call. We have with us today, Mr. Rajesh Mittal, Managing Director and Mr. V. Venkatramani, CFO of the company.

Before we begin, I would like to state that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detail statement in this regard is available in the 'Results Presentation' that was sent to you earlier. I would now like to invite Mr. Rajesh Mittal to begin proceedings of this call. Over to you, Sir.

Rajesh Mittal: Thank you, Gavin. Friends, a very warm welcome to everyone present and thank you very much for joining us today to discuss the Greenply Operating and Financial Performance of Q1 of this Financial Year.

Friends, I will talk briefly about the performance of our business before passing it to Mr. Venkatramani. Friends, our Plywood business in fact has grown around 20.8% to Rs.306 crore compared to last quarter the same was Rs.253 crore. The implementation of e-way bill system is leading to the shift from unorganized to the branded products. However, our MDF sales have fallen by 30%, this is primarily due to the steep reduction in the prices by our competitors. However, we have introduced some dealer scheme and have taken some measures, price cuts and some incentive schemes to the dealers in the month of August to reduce our price differential with the competition.

Gross margins were lower by 280 basis points, primarily due to the fall in the MDF volumes and the losses incurred in the Wallpaper and other category.

I would now hand over to Mr. Venkatramani to give you the financial numbers. Thank you.

V Venkatramani: Good afternoon, friends. I thank you for joining us to discuss the Q1FY19 financial performance of Greenply Industries. Our top line was up by 2.4% compared to the year-on-year quarter. Plywood sales increased by 20.8% while our MDF business recorded a steep degrowth of 30.1%. Our gross margins fell by 280 basis points year-on-year to 45.1% due to a significant fall in MDF revenues which has a higher gross margin and losses in the Wallpaper segment.

Average realizations in Plywood were lower by 7 per square meter at Rs.220 compared to Rs.227 in the corresponding quarter. MDF realizations were down by about 3.8% at Rs.25,131 per cubic meter compared to Rs.26,115 per cubic meter in the corresponding year-on-year quarter.

EBITDA margins for the quarter were down by 250 basis points at 12% primarily due to reduction in gross margins and losses in Wallpaper. Capacity utilization in the quarter was 109% for the Plywood segment and 79% for the MDF segment. Profit after tax was down by 22.2% at Rs.23.82 crore compared to Rs.30.63 crore in the corresponding quarter. The CAPEX incurred during the quarter amounted to Rs.65 crore comprising of Rs.52 crore for the Andhra MDF unit, Rs.6 crore for the U.P. unit and Rs.7 crore for the Gujarat decorative veneer unit. Our CAPEX spend is estimated at Rs.65 crore for the balance nine months of the current year. We are in the process of expanding our logs peeling capacity at Gabon from 36,000 to 96,000 cubic meters. Our working capital turnover days have increased to 79-days owing to an increase of 12-days in inventories and reduction of 9-days in creditors. Our net debt-to-equity currently stands at 0.77 compared to 0.62 in the corresponding quarter.

That concludes my presentation. I would now request you to open the floor for the Q&A Session. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: Two, three questions: One, if I look at the expenses, you shared that the A&P expense on Ply is about 4.7%. A&P is not spent that much on the MDF; it is largely spent on the Ply, which translates to 6% on the Ply sales. Is it like a new normal that 6% on Ply sales and how should one look at it? In the comment Mr. Mittal made in the beginning, he said that we are finally gaining over the unorganized guys. So, if you could help us in this first question about A&P and the gain over unorganized?

V Venkatramani: I would say that the first quarter was slightly on the higher side in terms of A&P expenses and I would expect the A&P expenses to be around 3.5-4% for the full year.

Nitin Bhasin: This is largely for Ply only, am I right?

V Venkatramani: Although we do the electronic media ad only for Plywood, but we also have A&P spends for MDF although most of it is of the BTL category. So, we spend on wall paintings, shop displays, sign boards and lot of activities for carpenters and contractors.

Nitin Bhasin: You are saying for the whole year it should be at about 3.5-4% between that number?

V Venkatramani: Yes.

Nitin Bhasin: In terms of gain over the unorganized for ply market?

V Venkatramani: So, we are targeting top line growth of about 12-15% for the Plywood business during the current year.

Nitin Bhasin: Last year muted revenue in terms of ply growth. Just trying to understand that sudden growth of 20% over unorganized. What is happening -- are they shutting shops or you are cutting prices?

V Venkatramani: No, we have not cut prices in Plywood, although there has been reduction in the average realization because of fall in the sales of decorative veneers which has significantly higher realization compared to the normal plywood. But like Mr. Mittal mentioned at the beginning of the call that we are seeing a significant improvement in demand with the implementation of the e-way bill system and this is probably only the start. I am not very optimistic about the current year that we are going to have a significant shift from unorganized to branded but over the next two years, we are optimistic that we will see a significant shift happening from unorganized to branded.

Nitin Bhasin: This is largely only market growth?

Rajesh Mittal: Actually, from unorganized to organized, the real picture of the e-way bill it will take another two to three quarters to feel exactly what is the impact of that. But Q1, we have seen a little bit changes in that, branded product or full bill material requirement is little bit increased. #2, we are seeing the growth is what we have done, we have introduced lower end plywood also to service the lower segment of the plywood. So, we are seeing some growth from that category as well.

Nitin Bhasin: My second question is why there is a sudden drop in MDF sales – is corporate activity over or competition has come in and has actually taken market share from you?

V Venkatramani: There have been significant price cuts by competition starting from February 2018, I think that is why MDF volumes have taken a significant hit during the fourth quarter of FY18 and the current quarter. Hence, we had introduced some schemes during the first quarter but again competition responded with fresh schemes and price cuts which had negative impact on our volume. So, we are reviewing our pricing strategy and we have taken some further price cuts in August which we hope will help improve our volumes during the remaining part of the current year.

Nitin Bhasin: Because the new capacity will come in during this year, how should one look at this MDF, what could be your target or any guidance?

Rajesh Mittal: Our new plant has started commercial production on 1st July and we are targeting a top line of about Rs.700 crore from MDF compared to the Rs.470 crore of MDF revenue we did in FY18.

Nitin Bhasin: 20% already down first quarter, are we comfortable to maintain that outlook?

Rajesh Mittal: I think it is too early to take a negative outlook just because of one bad quarter. So, we will review the numbers after the end of the second quarter.

V Venkatramani: When there is reduction in the prices, the trade inventory becomes low. So, the traders try to reduce their inventory whatever they are maintaining. This is also one of the factors playing here at this moment.

Nitin Bhasin: Why has the inventory increased in working capital for you right now – is it because of ply sales, what is happening in inventory?

V Venkatramani: There has not been any significant increase in plywood inventory. Most of the inventory increase has happened in the MDF where we had to increase inventories because testing processes were happening at the new plant and we could not stop that process just because there was a shortage of orders.

Moderator: Thank you. We will take the next question from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

Sriram Rajaram: Sir, last quarter as far as the IND AS statement is concerned, we saw EBITDA margin of 30%, now it is down to 22%. Where do we go from here, like I could see that your realizations are at 25,000, what is the price action are you going to take to improve the volume, so how that will impact the margins? One more thing which I want to know is how are we placed in respect of competition, currently, are we priced more than Century and Action?

V Venkatramani: During the past quarter, we were almost at 8-9% premium compared to competition, although we had introduced some volume-based schemes for the dealers, those did not really take out because of continuous price cuts by competition, so dealers were keeping inventories at very low levels, but yes, like I mentioned, we have taken some price cuts in the current month and we expect that to have a significant impact on volumes going forward and we are targeting EBITDA margin of about 24% for the existing plant and about 14% for the new plant for FY19 which would give us the blended margin of about 19-21% for the full year.

Sriram Rajaram: Sir, these new plants, how many volumes are expected in the first year, it is operational from July, right?

V Venkatramani: Yes, it is operational from July. It is not just a question of how much volumes we can produce because producing volumes will depend on the order flow and at this point of time I am unable to give you the breakup of how much volumes we will be doing from the existing plant and how much from the new plant because that will depend upon the regional flow of orders. Most of our sales to the southern and western zones will happen from the new plant and those for the north and east will happen from the existing plant. So, flow of orders will determine the production volumes at both the plants. But overall we are targeting volumes of about 3,20,000 to 3,40,000 for the current fiscal.

Sriram Rajaram: Sir, this price action which you have taken, how much is that, what will be the reduction in price as far as Q1 numbers are concerned, we are at 25, so 10% cut, is that what we can expect?

V Venkatramani: Somewhere in the range of about 8-10%.

Sriram Rajaram: How is the Action placed sir in the market?

V Venkatramani: Once we have taken this price cuts, we will be half a percent here or there with Century and Action,

Moderator: Thank you. We will take the next question from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah: Sir, on the Plywood side, basically just want to know the product mix as in what has been the growth rate in the low-end segment and in the Ecotec segment versus the premium segment for the quarter?

V Venkatramani: Overall, we had volume growth of 24% in the Plywood segment and of this about 33.7% came from the mid segment and the lower segment.

Nehal Shah: So, it really testifies that the markets again has happened particularly in the low end and the Ecotec segment?

V Venkatramani: I would not say that because we have had significant gains in the premium segment also…volume growth in the premium segment has been close to 19%, yes, volume growth has been higher in the mid segment and the lower segment, but even the premium segment has seen a significant improvement in volumes.

Nehal Shah: That is what is pretty surprising. Particularly if you look at the premium segment, there is hardly any opportunity as far as shift from unorganized to organized is concerned. Despite the fact that, we have grown at 19%. Is that to do a lot with the changes in the real estate cycle or something or in other way the existing inventory in the real estate are sliding downwards?

V Venkatramani: I do not think we have seen any significant improvement in real estate.

Rajesh Mittal: In fact, last year Q1 was not that great because of the pre-quarter for the GST. We cannot really compare with the last year Q1 versus this quarter. Actually, the Q2 will say exactly what the situation is.

Nehal Shah: Sir, Plywood margins again has been very-very good along with the improvement in volumes. So, whether that is because of the Okoume versus the Gabon phase or it is a mix of that as well as the operating leverage?

Rajesh Mittal: Basically, we have changed our face veneer from Gabon to Okoume and that has played a very significant role in improving the margin.

Nehal Shah: Sir, my last question is Venkat ji, what would be the tax rate going forward for the entire year?

V Venkatramani: Although we should have two entities by the end of the year with different tax rates but at this point of time I think an average tax rate of 27-28% for the full year.

Moderator: Thank you. We will take the next question from the line of (Sneha Talreja from Edelweiss). Please go ahead.

Rohan: Rohan here. Sir, on this MDF segment itself, in earlier also you have given the higher schemes and then competition has counter offered that to take away that benefit and now you have cut the prices by almost 8-9%, so now you have aligned with those competition. So, what is the comfort level that the competition will not come with any aggressive policy further from here or they will not counterattack our current policy of reduction in prices and prices will remain here?

V Venkatramani: The competition has very small ground in terms of further cut in prices. I do not think the EBITDA margins were very good in the first quarter that competitors would have scope for further cut in prices. Yes, our EBITDA margins are still reasonably higher as compared to other competitors. So, we will have to wait and watch how the situation moves ahead. But I think we are almost at the end of the pricing cycle, there is not significant room for price cuts by competition.

Rohan: So, you see that 24% EBITDA margins on old plant which you are seeing, that will be the new normal for us and now probably the earlier pricing premium which Greenply was enjoying over others may not be the norm now. So the top two or top three players will have similar pricing in the market and EBITDA margin for each and every one will be in the same range of 24% roughly, is that a correct understanding?

V Venkatramani: I do not think that EBITDA Margins would be the same range because not all of us would have the same cost and the same operational leverage. So, it would be different for different entities but yes, I agree with you that pricing will be more or less on par with competition.

Rohan: Just second question on Plywood. So, as you mentioned that definitely there is some benefit you are seeing coming from unorganized to organized. So, surprising because we still see that probably other players have not yet benefited from this kind of move, so any particular thing done especially by the company or you see that sooner or later all the players will start seeing the benefit of this unorganized to organized?

Rajesh Mittal: Actually, this GST implemented last July only, but from 1st of April they have implemented e-way bill. I am seeing personally there is some benefit because of e-way bill to the branded people, whether it is premium product or the medium segments, I am seeing some changes in the buying pattern by the dealer because of the e-way bill.

V Venkatramani: Going forward, most of the branded plywood players would see the benefits of the shift happening from unorganized to organized but maybe not a significant shift happening during the current year.

Rohan: Sir, any idea on the growth of the industry for the plywood including unorganized part?

V Venkatramani: No, we have no numbers on the industry.

Moderator: Thank you. We will take the next question from the line of Ashish Poddar from Anand Rathi Securities. Please go ahead.

Ashish Poddar: My question is on the Plywood margins. So, in the first quarter we had 11.3% margin vis-à-vis 10% reported in FY18. Do you think that this 10%, 11% kind of margin is sustainable for the whole of the year?

V Venkatramani: I think so, unless we see a significant drop in volumes, we should be able to maintain the margins.

Ashish Poddar: My second question is in your annual report, you highlighted that you wanted to enter into the Acrylic Solid Surface Sheets. If you can throw some light how this opportunity is and in what stage you are in, in this business?

Rajesh Mittal: Acrylic Solid Surface is normally known as solid surface material in the market. Very small quantity we are doing and this 100% trading model, we are not going to produce anything, at a simple trading model we have distributing one of the companies from US, they are distributing their product in India now.

Ashish Poddar: So, it is like the Wallpaper business which we are currently doing?

Rajesh Mittal: Not Wallpaper, Wallpaper is more of designing. So, means it has a lot of SKUs, lot of things are there. Solid surface comes in seed by say 12x2.5 sheets and mostly 90% white and 3 or 4 colors, that is only 10% volume. So, our focus will be mostly on the white.

Ashish Poddar: Still all your subsidiaries are making losses. Do you think that in the current year or next year we will see some turnaround there?

V Venkatramani: I think we will see an improvement in FY19. The Gabon subsidiary should show some profits during the current year and we should see a significant reduction in losses in the MDF subsidiary in Singapore. I think major benefits of the subsidiary operations will probably be reflected in FY21.

Moderator: Thank you. We will take the next question from the line of Gautam Bahal from Mauryan Capital. Please go ahead.

Gautam Bahal: Sir, Mr. Mittal has mentioned in the presentation that the long-term plans in the MDF segment remain intact. So, could you walk us through quickly what the long-term plans exactly are, I assume you mean FY21? Previously you said top line in MDF of Rs.1,500-1,600 crore and margin of 21-23%, is that right?

V Venkatramani: We had said top line of about Rs.1,500 crore and margins of about 21-22%. So, that is the target for FY22.

Gautam Bahal: When you say this margin profile, are you assuming a lot of the new plant capacity goes for exports as well or you are assuming that more of it moves for domestic market?

V Venkatramani: I would assume that almost 90% of the new plants capacity would be absorbed in the domestic markets.

Gautam Bahal: So, would it be fair to say that the margin assumption is a little bit on the lower side or would that be reasonable?

V Venkatramani: I would not say it is on the lower side. MDF is basically today a commodity business. So, you are not really able to extract a significant price premium from competitors. So, we are already seeing the impact of that. Going forward, yes, although I said about 21-22% in FY22 but if we have the optimum capacity utilization in both the units, we could possibly achieve margins of about 23-24%.

Gautam Bahal: Sir, if one can use the word, are we the low-cost producer in MDF at the moment when the new capacity runs full stream operating leverage?

V Venkatramani: Definitely.

Gautam Bahal: Once this becomes run rate, the MDF segment, what is the ROCE that we sort of envisage?

V Venkatramani: We would target post-tax ROCE of about 20%.

Gautam Bahal: Next question is on Ply from me. In the annual report, it is mentioned that we expect the organized ply market to grow about 25% CAGR for the next five years; however, we give a guidance of 12-15% for FY19 at least. So, do you expect top line to grow much faster after FY19 or how does that connect?

V Venkatramani: We will see only a marginal shift happening from unorganized to branded during the current year and the shift will speed up significantly over the next three years. So, that should help us to maintain a significant growth in plywood top line.

Gautam Bahal: Assuming this projection does come through, indeed if the market does allow you to grow 25% in ply, do we have the capacity onstream in the next few years to sort of meet the demand in ply?

V Venkatramani: Yes, so we have kept our UP Plywood expansion pending for the time-being because of the demand situation. But if we have to, we can expand that capacity and bring it online within a period of about nine months. So, that should give us significant growth over the next three years.

Gautam Bahal: How do we look at the net debt outlook for the next couple of years… what is the plan to pay back, I think it is Rs.650-700-odd crore at the moment?

V Venkatramani: We are expecting a peak debt of about Rs.725-730 crore in the current year and the debt repayments will start in the next financial year, if we look at the repayment terms we would be repaying about Rs.60-65 crore on an annual basis, but if our cash flows are robust, I think we would probably make some prepayments provided there is no prepayment penalty.

Gautam Bahal: Would it be fair to assume by FY21 at least half that debt can be repaid by free cash flow, right?

V Venkatramani: In terms of cash flows, there would be no issues.

Moderator: Thank you. We will take the next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Two, three questions on the MDF side. When the competition has increased and there has been substantial price decline, what has been the reaction from the imports -- have they also reduced prices, their volumes have increased/reduced, can you give us some idea on that because I think over 25, 30% of the market used to be catered by imports of MDF, so what is the situation right now?

V Venkatramani: Imports have also reduced prices and in fact if we look at it imports have improved the market share from about 35%, they are now probably about 40% and they have even started spreading material in the northern zone which was not the case previously, but yes, once we expand our operations at the new plant, we expect imports to decline significantly over the next two years.

Bhavin Chheda: You said you have reduced prices by almost further 10% from realizations of currently 25,000. Then if I try to do a reverse calculation of operating margins, it would be somewhere between 17-19%, then you are saying that your old plant will still be making 21%-odd. So, do you expect some areas of cost savings where the margin will be upward of 20% or where have you taken that number from because I think price decline of 10% has happened just in July, so is there a new revision in margin guidance or no?

V Venkatramani: If you look at our operating margins for FY18, they were 28.5% after currency loss of about 3.5%, so actual margins were about 32% for FY18 and with the price cuts I have mentioned close to about 10% and some operational leverage in terms of the sales and marketing overheads not increasing in the same proportion as the turnover, there would be some overhead savings. So, I think yes, that operating margin of about 24% is achievable.

Moderator: Thank you. We will take the next question from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: If you could help us understand the difference in the segmental revenue what is reported in the press release and the PPT, is it largely to do with the GST refund, is that understanding right sir?

V Venkatramani: Yes, the GST refunds and some other operational income because there we report segment revenues whereas the net sales do not include those other operational income

Achal Lohade: But the EBITDA in the PPT for the ply and the MDF segment will include because other operating income is included in EBITDA, is that right?

V Venkatramani: That is right.

Achal Lohade: So, in that case if I look at the margins for ply business, it is about 10.6% for the quarter as against the reported 11.3%. What I would like to know is that how much the savings from the phase veneer sourcing change, if you could quantify for the first quarter?

V Venkatramani: I include other operating income in the EBITDA because it is not a one-time income; it is available for the next eight to ten years because the GST refund for the Nagaland unit will be available possibly till FY24 or FY25. So, it is a perpetual recurring income and that is why it is included in the EBITDA numbers. If it was a one-off item, I would not have included it in the EBITDA numbers.

Achal Lohade: I was just trying to see on a like-to-like basis because first quarter of FY18 would not have such refund?

V Venkatramani: In fact, we had a much higher refund in Q1 of last year because at that point we were getting excise duty refund which was much higher in percentage terms than the GST refund.

Achal Lohade: Do you have the quantum by any chance?

V Venkatramani: It was about Rs.7 crore for the Nagaland unit.

Achal Lohade: What about the quantification of the savings on account of the veneer sourcing change?

V Venkatramani: That will have an impact of about 100 basis points in the current year.

Achal Lohade: Sir, you did talk about the MDF revenue for FY19. Would you be able to throw some color on FY20 because FY19 would be just six months of southern plant, how do you look at FY20 as a whole with respect to the utilization, revenue and the margins?

V Venkatramani: I think we would be targeting a top line of about Rs.1,000 crore in FY20. About 24% margins in the Uttarakhand plant and about 17% margin in the Andhra plant.

Achal Lohade: In terms of the volume?

V Venkatramani: Yes, we would be targeting about 430,000 cubic meters in FY20.

Achal Lohade: Sir, what was the export volume for the quarter and the realization?

V Venkatramani: Exports volume for the quarter were 5,772 cubic meters with an average realization of 16,852 per cubic meter, our blended MDF realizations were 25,131 per cubic meter and domestic MDF realizations were 26,700 per cubic meter.

Achal Lohade: In terms of the gross margin, would it be similar in both south as well as north plant or could it be substantially different?

V Venkatramani: It will be lower for the southern plant at least in FY19 and FY20 depending upon the volume of exports. But yes, once we have significant capacity utilization for the domestic markets at the new plant, the operating margin should be on a similar level for both the plants.

Achal Lohade: You are talking about operating margins or gross margins? I was curious to know about gross margin sir?

V Venkatramani: Even the gross margins would also be significantly lower at the new plant compared to the Uttarakhand plant because we expect that export should be somewhere between 30-40% during the current year.

Achal Lohade: Would you be able to give some idea about the realization for the domestic as in terms of the south plant compared to exports?

V Venkatramani: Domestic realizations at the southern plant would be about 21,850 per cubic meter and export realizations would be about 15,000 per cubic meter.

Achal Lohade: What would be the landed cost of MDF broadly for imports because I was just trying to understand, is there a downside risk to this 21,850 the way we are looking at a drop in pricing because of high capacity in north, given substantial capacity of RCs coming up in south coupled with other players, would there be a case of drop in the realization even in case of south?

V Venkatramani: We have taken a conservative realization for both the plants as far as the projection estimates are concerned but yes, depending upon the level of competition, I would not completely rule out further reduction in prices and margins although it appears to be low probable at the current moment.

Achal Lohade: If I look at the north MDF, you said that basically we are trying to respond to the competition. Would you be able to give us idea about how much is B2C, how much is B2B and is it a pure-pure commodity business or is there a branding which can be of help at least in the medium-term?

V Venkatramani: Yes, in the medium-term we can definitely look at some branding impact because I think that is probably the only thing which would enable us to have price premium in the medium and the long-term, but yes, at the moment, we are reconciling to the fact that MDF is a commodity business and that we cannot have a price premium over other competitors.

Moderator: Thank you. We will take the next question from the line of Kaustav Bubna from Rare Enterprises. Please go ahead.

Kaustav Bubna: When would your Andhra Pradesh MDF unit breakeven on PAT?

V Venkatramani: Definitely next year.

Kaustav Bubna: First few quarters will also be carry-forward loss, right?

V Venkatramani: I think at the most have some losses in the first quarter, but I would not expect the unit to have losses beyond the first quarter next year.

Kaustav Bubna: What do you think is cumulated net loss would be, would be around Rs.20 crore

V Venkatramani: I would say somewhere about Rs.10-15 crore.

Kaustav Bubna: Basically this year profitability will be under pressure?

V Venkatramani: That is right.

Kaustav Bubna: In this Plywood business, Rs.106 crore of revenue, how much was decorative veneers because that is a new income stream, right?

V Venkatramani: It is not a new income stream because our Uttarakhand unit also produces some decorative veneers, but if we consider both the units, we had about Rs.14 crore of revenues from decorative veneers.

Moderator: Thank you. We will take the next question from the line of Abhijit Sinha from Pi-Square Investments. Please go ahead.

Abhijit Sinha: I want to understand the pricing difference between our MDF prices and the prices of the MDF that is imported from other countries?

V Venkatramani: So, if we look at the price difference between Greenply and domestic competition in the first quarter, the pricing difference would have been in the range of about 5-6% and if we compare that to imports, pricing difference would be about 13-14%.

Abhijit Sinha: So, we are higher in that way?

V Venkatramani: That is true.

Abhijit Sinha: Sir, I just wanted to understand that our value-added products mix, how much of the plywood business and the MDF business has a value added product in them?

V Venkatramani: Value added is very low in MDF segment; it would be about 14-15% whereas value added in the plywood segment would be about 35-40%.

Abhijit Sinha: At the company level overall how much would that be?

V Venkatramani: Say about 26%.

Abhijit Sinha: I just wanted to confirm with the new plant coming in, how much would the capacity utilization be for this year?

V Venkatramani: We are expecting 45% annual capacity utilization at the new plant in the current year.

Abhijit Sinha: Overall sir?

V Venkatramani: It is difficult to give you separate numbers because it will depend upon the flow of orders to each of the plants but overall, we are expecting volumes of about 3,20,000 to 3,40,000 cubic meters against the capacity of 5,40,000 cubic meters.

Abhijit Sinha: My last question would be the distribution network. How much are we expecting it to grow by? You mentioned that you are planning to grow it.

Rajesh Mittal: Actually, we are trying first to be there in all district headquarters, so still 20% of district headquarters we do not have a dealer network, we are trying to open that first. You can say we will be growing around 15-18% of distribution network in this financial year.

Abhijit Sinha: Is there any difference between the distributors and the retailers like the growth between them?

V Venkatramani: 15-18% is at dealer level because we do not have too many distributors in the plywood business because number of SKUs is not very large, it is more like a dealer, retailer model in plywood, not exactly distributor, dealer, retailer model.

Moderator: Thank you. We will take the next question from the line of J Radhakrishnan from IIFL. Please go ahead.

J Radhakrishnan: Sir, I am still trying to understand this pricing guidance. So, you told 8-9% reduction. Is that on FY18 price or is that on Q1 FY19 price?

V Venkatramani: It is on Q1 pricing because in Q1 if you look at our plain MDF realizations, they were about 4% lower compared to Q1 FY18.

J Radhakrishnan: Because you told this 24%, you will be able to achieve based on 28.8% of FY18 and 8% cut. So, if I am making based on 22% and 8% cut I am unable to reconcile how we will be achieving 24%, is there any cost savings which you are planning?

V Venkatramani: No, you are looking at reported EBITDA margin of 28.5%, but that was inclusive of currency losses of 3.5% on borrowings for the new plant.

J Radhakrishnan: No sir, I am seeing on Q1 margin is 22.1%. Is there any currency loss there also?

V Venkatramani: There is some currency loss there also. So, if we exclude the currency loss the margin is 25%.

J Radhakrishnan: So, that is why I am trying to understand this 25% if you are taking 8% cut, so how for full year it can become 24% I am trying to understand that?

V Venkatramani: If you look at the volumes, there was 30% drop in volumes in the first quarter and that is the primary reason for the fall in the EBITDA margins. It is not because there has been any significant reduction in the gross margins, in fact, if we do like-on-like comparison, gross margins have improved by 60 basis points in the first quarter compared to the corresponding quarter of last year. So, operating margins have fallen primarily because of the fall in volumes. If we take the price cut and that helps us to improve the volume significantly, that will enable us to maintain the EBITDA margins.

J Radhakrishnan: Secondly on this Rs.700 crore guidance on the revenues, I am trying to understand that also, so for this quarter we have done Rs.91 crore of revenue, so that means that from next quarter the run rate has to be around Rs.200 crore. So, out of the incremental volumes from the current quarter, how much you are targeting towards exports and how much it could be domestic?

V Venkatramani: So, we will be targeting about Rs.100 to 120 crore for the export markets and the balance for the domestic markets.

J Radhakrishnan: Just trying to understand whether domestic market can absorb whether that much of robustness in demand you are able to see?

V Venkatramani: I think it can happen, maybe we could be delayed by a quarter in achieving our targets, but at this point of time I think it still can be done because after the price cuts we will also be in a significantly advantageous position as compared to the cheap plywood segment and that would enable us to make deep inroads in to that segment. So, it is not just competing against other MDF producers, it would help us to increase the market significantly for MDF.

Moderator: The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: Sir, very briefly just following up on a few things; one is that if you look at the sales of ply, how much of that were outsourced in this quarter, I missed from the presentation?

V. Venkatramani: Out of our total sales of Rs.306 crore in plywood, outsourced volumes were Rs.87 crore.

Nitin Bhasin: Is that largely for the mid and the low category or only low category?

V. Venkatramani: It is significantly mid and very small quantum of low.

Nitin Bhasin: Second question was, you are talking about MDF, and we are talking about the increasing competition about competitive pressure in the MDF. Recent market channel check suggests that there are some three to four players who are putting up many MDF plants in the country. The question was that in ply we saw lot of small players coming, but in MDF it is between top three to five players, but now we are hearing that even in mini MDF plants are most likely to come up. What are you seeing in mini MDF plants competition and how are you seeing beyond the top three-four guys, what will be competitive landscape of MDF in the next one, two, three years?

V. Venkatramani: I think the history of MDF in the country can give a pointer to the mushrooming number of MDF players. If you look at the past, there were a number of players apart from Green and Action, but if we look at the others they have always remained small and marginal players operating with very small capacities and very low capacity utilizations. So, probably our MDF margins have attracted lot of competition, but then probably they will over a period of time realize that you cannot be economical in terms of cost if you are going for small capacities in MDF. So, yes, definitely there will be new entrants coming into MDF, but we will have to see whether those are sustainable.

Nitin Bhasin: Your channel check suggests what kind of capacity in the next two years, three years in India?

V. Venkatramani: I think most of the capacities have already come into the market and now with the competition coming in I have already heard news from some of the competition that they have postponed their plans to expand in MDF, so that could possibly also happen with some of the organized players who have mentioned plans to enter in to MDF, the price competition in the market at the current moment, but a lot of competitors actually venturing into MDF.

Nitin Bhasin: You also mentioned in the call somewhere that by the end of the year the company would be possibly having two entities. What is the indicative split for the two entities at the end of the year?

V. Venkatramani: We would have about Rs.200 crore of debt in the plywood business and the balance in the MDF business. Ply is predominantly working capital because we have not done any major expansions in plywood during the last three or four years and MDF it will be more of long term borrowings because of the Andhra plant.

Nitin Bhasin: Sir, last year the cash flow from operations was halved from FY17, just about Rs.110 crore of cash flow from operations as compared to EBITDA of Rs.210 crore, this year also the working capital have been gone up in the first quarter, it looks like CFO generation this year would be also very weak?

V. Venkatramani: I do not think we should make an assessment of full financial year just on the basis of one bad quarter. Definitely, the low volumes in MDF have had a significant impact, and like I mentioned again at the beginning of the call that although we have seen an increase in inventory, we have not seen any increase in debtor days in MDF. So, I think once the flow of orders moves up and the inventories go down, we should see a improvement in the working capital situation, I would have been worried if the debtor days has gone up, but since that has not happened, I think this is a temporary situation the increase in inventory is a one-quarter impact and we should see a significant reduction in inventories going forward.

Nitin Bhasin: Last question for Rajesh ji. About realizations in the industry, if you look at Greenply is the leading brand and despite that the last five years the realizations of ply have not moved up and now MDF realizations are also coming under pressure, so the story which has been of branded building materials upgrading by the customer or let us say premiumization of the product, will it ever happen in ply, what is your point of view?

Rajesh Mittal: This is true in last five years, there is not a significant increase in the price in our premium product category also, #1 and #2 is if you see there are lot of cost reduction measures and we really do not want to increase the price in a big way in the market as well.

Nitin Bhasin: So, basically you are indicating that is largely a cost game and not a pricing game in the future also?

Rajesh Mittal: Because of the demand situation what you are saying is that the raw material prices have also come down which has helped us to maintain the margins. To increase the production capacity, we are buying lot of mat ply to increase our premium category products, they are also helping us to maintain our cost price.

Moderator: The next question is from the line of Ajay Srivastava from Stewart & Mackertich. Please go ahead.

Ajay Srivastava: I am asking that on the MDF segment, geographical revenue contribution in which segment it has gone down?

V. Venkatramani: It has come down primarily in Northern India.

Ajay Srivastava: As per you presentation, you are utilizing 100% for FY18. So, what do you expect for FY19?

V. Venkatramani: Like I mentioned we are targeting 3,20,000 cubic meters of MDF sales against a capacity of 5,40,000 cubic meters. So, that would be about 60% capacity utilization blended for both the plants put together.

Ajay Srivastava: My second question is with you Gabon plant. Can you share total CAPEX involved in this plant and how long it will take to complete it?

V. Venkatramani: Compared to the CAPEX we have incurred up to the close of FY18, we would be spending another US$5 million for the capacity expansion and part of the expansion will be completed in the current year, but the full capacity expansion will happen in the next financial year from the current capacity of 36,000 cubic meters of logs peeling to 96,000 cubic meters of logs peeling.

Moderator: The next question is from the line of Mr. Vaibhav Shah from ICICI Direct. Please go ahead.

Vaibhav Shah: Sir, you have mentioned that we have kept on hold our plywood expansion of UP unit. Despite that we will be able to achieve 12 to 15% growth in plywood business?

V. Venkatramani: Definitely, like Mr. Mittal has mentioned, what we have started in FY18 and which we are increasing in the current year is, we are buying the matt plywood from unorganized plywood manufacturers, basically it means just the core plywood without the face veneers then these are brought to our factories and after that the face veneering and the finishing is completed at our factory. So, that has helped us to improve the capacity utilization at our plywood plants.

Vaibhav Shah: What kind of utilization we will be expecting for this year FY19?

V Venkatramani: I think we would be expecting close to about 120% capacity utilization.

Vaibhav Shah: What would be the trading volumes for FY19?

V Venkatramani: Trading volumes I think we should be doing about 20 million square meters in the current year.

Vaibhav Shah: So, we are basically replacing the capacity that we have got from UP plant through high utilization at existing unit and through trading?

V Venkatramani: That is correct.

Vaibhav Shah: So, by when should the new plant come in -- FY20 or…?

V Venkatramani: FY20.

Moderator: The next question is from the line of Abhijit Sinha from Pi-Square Investments. Please go ahead.

Abhijit Sinha: I wanted to understand that we are taking an asset light model in plywood business right. So, I wanted to understand what is the benefit of the outsourcing and by how much are we outsourcing in that?

V Venkatramani: The primary benefits of outsourcing is that it is enabling us to increase our volumes in the premium segment without any fixed capital expenditure and this we are doing on a very selective basis from producers who are able to manufacture according to our specifications and quality so that there is no negative impact on the Greenply brand.

Rajesh Mittal: In fact this is outsourcing, we are not buying for our premium product… all the full plywood, we are buying as I had mentioned you the matt, we have introduced two years back matt process in our plywood plants, so we are buying the matt process then we are putting the face veneers and finishing line we are doing at our plant and from vendors whom we are buying the matt we have installed all machineries whatever we are required to maintain our quality.

Abhijit Sinha: You have increased the outsourcing from 22% to 30% is mentioned in your presentation. What would that mean exactly?

V Venkatramani: What we have mentioned is that over the next two years, we were targeting that outsourcing should be about 30% in value terms.

Rajesh Mittal: In fact the outsourcing we are entering in the lower end market also, that will also be our outsourced product.

Abhijit Sinha: I just wanted to understand the Gabon plant, like you have given figures of how much CAPEX we have done. So, when do we see this further CAPEX resulting into numbers and how much could we quantify that like what would be the benefit of this expansion?

V Venkatramani: During the current year, we are targeting about 55% capacity utilization which would give us net revenues of Rs.77 crore….by this I mean that this would be exclusive of exports to Greenply for the internal consumption and in FY20 we would be targeting about Rs.120 crore of revenue from the Gabon plant excluding the internal sales, the peak in FY22 or FY23 which will be about Rs.175 crore.

Abhijit Sinha: This increase in 60,000 that has happened, so that would be seen in FY20 or FY22?

V Venkatramani: The capacity expansion will be completed in the next financial year, but peak capacity utilization will happen in FY22.

Moderator: Thank you. The next question is from the line of Sriram Rajaram from Sundaram Mutual Fund. Please go ahead.

Sriram Rajaram: Sir, for the AP plant at what level of utilization will be at EBITDA breakeven?

V Venkatramani: PBT breakeven at about 55%.

Sriram Rajaram: So, these are all taking into consideration the realization of 22,000-23,000, if I am right sir?

V Venkatramani: About realization of about 22,000.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments.

V Venkatramani: Thank you friends for taking out time to attend the Greenply Q1 results call and we look forward to speaking to you again post the Q2 results.

Moderator: Ladies and gentlemen, on behalf of Greenply Industries that concludes this conference call. Thank you for joining us and you may know disconnect your lines.