

GPIL/2022-2023  
July 25, 2022

**The Manager**  
**BSE Limited**  
**Department of Corporate Services**  
Floor 25, P. J. Towers, Dalal Street  
Mumbai-400001  
**Scrip Code: 542857**

**The Manager**  
**National Stock Exchange of India Limited**  
Exchange Plaza, Bandra Kurla Complex  
Bandra (E),  
Mumbai - 400051  
**Symbol - GREENPANEL**

Dear Sir/Madam,

**Sub: Conference call transcript**

Please find enclosed Conference Call Transcript in respect of conference call for Investors and Analysts held on July 22, 2022, on the unaudited financial results of Greenpanel Industries Limited for the quarter ended June 30, 2022.

The same is also being made available on the website of the Company at [www.greenpanel.com/investor-conference-call-transcript/](http://www.greenpanel.com/investor-conference-call-transcript/).

Thanking You

Yours faithfully  
For **GREENPANEL INDUSTRIES LIMITED**

*Lawkush Prasad*

(Lawkush Prasad)

Company Secretary & AVP – Legal

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## **Greenpanel Industries Limited**

### **Q1 FY 2023 Earnings Conference Call Transcript**

#### **July 22, 2022**

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**Moderator:** Ladies and gentlemen, good day and welcome to Greenpanel Industries Limited Q1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' and then '0' on your touch-tone telephone. Please note, that this conference is being recorded.

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

**Rishab Barar:** Good day everyone and thank you for joining us on the Greenpanel Industries' Q1 FY'23 conference call. We have with us today, Mr. Shobhan Mittal, Managing Director and Mr. V Venkatramani, CFO.

Before we begin, I would like to state that some statements made in today's discussion may be forward-looking in nature and may involve risks and



uncertainties. A detailed statement in this regard is available in the result presentation that was sent to you earlier.

I would now like to invite Mr. Shobhan Mittal to begin the proceedings of the call. Thank you, and over to you, sir.

**Shobhan Mittal:**

Thank you, Rishab. A very warm welcome to everyone present and thank you for joining us today to discuss Greenpanel's operating and financial performance of Q1 FY'23. MDF and Plywood volumes were marginally higher quarter-on-quarter, which is a positive beginning for the current year, since quarter one is normally a weak quarter compared to the immediately preceding Q4. MDF and Plywood volumes were higher by 11% and 44% respectively year-on-year. Net sales for the quarter were higher by 54% year-on-year and flat quarter-on-quarter. MDF and Plywood revenues were higher by 56% and 54% respectively.

Total MDF volumes were higher by 11%. Domestic volumes were 26% higher, export volumes were 23% lower. MDF domestic sales are higher by 64%. Export revenues were 18% higher and total MDF revenues were higher by 54%. MDF domestic realizations were higher by 30%. Export realizations were higher by 52%, while blended realizations were 39% higher.

Plywood realizations were higher by 9% year-on-year. Gross margins were up by 539 basis points year-on-year at 61.6%. EBITDA margins were up by 688 basis points to 30% due to operational leverage in both the segments, continuous focus on reducing wastage, price improvements and superior product mix.

PAT is up by 161% year-on-year to Rs. 77.6 crore. Net working capital days stands at 16 days, has shown a reduction of 18 days compared to year-on-year quarter. Net debt has reduced by Rs. 77 crores during the quarter and is negative to the extent of Rs. 17 crores as on 30<sup>th</sup> June, 2022. Gross Debt stands at Rs. 208 crores as on 30<sup>th</sup> June 2022.

I take pleasure in informing you that our Board has approved capital expenditure project for expansion of MDF capacity at Andhra Pradesh. We will be expanding the capacity by 231,000 cubic meters annually at a cost of approximately Rs. 600 crores.

I will now request Mr. Venkatramani to run you through the financials in greater detail.

**V. Venkatramani:**

Good afternoon, everyone. I thank you all for joining us to discuss the Q1 FY'23 financial performance of Greenpanel Industries. In Q1, our top line increased by 54% at Rs. 462.75 crores compared to Rs. 299.53 crores during the corresponding year-on-year quarter. Plywood sales grew by 56% at Rs. 70.85 crores, while MDF sales grew by 54% at Rs. 391.90 crores.

MDF domestic revenues were higher by 64% at Rs. 328.22 crores, while export sales were higher by 18% at Rs. 63.68 crores. Plywood sales volumes rose by 43% at 2.51 million square meters and MDF volumes increased by 11% at 125029 cubic meters. Uttarakhand MDF unit operated at 82%, AP plant at 80%, with blended capacity utilization at 81% for both the plants put together. Plywood unit operated at 90% during the quarter.

In Q1, Gross Margin rose by 539 basis points year-on-year at 61.6% as compared to 56.2% in the corresponding quarter. Gross Profit grew by 69% at Rs. 284.94 crore, as compared to Rs. 168.30 crores. EBITDA margins were up by 688 basis points at 30.0% compared to 23.1%. EBITDA in value terms stood at Rs. 138.79 crore compared to Rs. 69.23 crore in Q1 FY'22. Profit After Tax increased by 161% at Rs.77.60 crores as compared to Rs. 29.74 crores. Our gross-debt-to-equity stands at 0.20 as on 30<sup>th</sup> June 2022 compared to 0.51 as on 30<sup>th</sup> June 2021. Net debt reduced by Rs. 77 crores during the quarter, to negative Rs. 17 crores as on 30<sup>th</sup> June 2022.

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

**Moderator:**

First question is from the line of Jignesh Kamani from GMO. Please go ahead.

**Jignesh Kamani:** Hi, Shobhanji. Hi, Venkatji. Congratulations for good set of numbers. Sir, if you take out the MDF volume, it was good. In QoQ also it was reasonably healthy, and the realization is also firm on the QoQ numbers. So, what explains the 130 basis points decline in the operating margin from 34.62 to around 33.3?

**V. Venkatramani:** It is primarily because, you know, we have lost the EPCG benefit because we have completed our export obligations in March. So EPCG benefit which contributed about 2.17% to the margins in Q4 last year, so that has been completely removed from the current quarter. So, the impact of that should have been higher, but we have been able to improve the gross margins. So, the impact on the EBITDA has been lower than what it would have been otherwise.

**Jignesh Kamani:** So, for the full year, the impact will be 2.1% lower for the entire year because of the EPCG benefit, right?

**V. Venkatramani:** Yes. So, it will depend on a variety of factors, not just the EPCG benefit. That is what the impact would be. But then, we cannot automatically assume that the first quarter performance will be replicated in future quarters. So, there could be raw material price hikes. We might not be able to pass on the full extent of those hikes to the consumers. There might be a slowdown in future quarters because of tightening of the economy and continuous rate increases by the RBI. So, I do not think we should imagine that one quarter performance will be replicated in all the future quarters.

So, while our efforts will be on to ensure that our performance is replicated in future quarters, but I think that note of caution is required because I feel that steps taken by the RBI is likely to have some impact on the economy sooner or later.

**Jignesh Kamani:** And how is the demand environment in MDF? How was the demand environment in the first quarter and how is the demand environment currently? Because the market we have seen a mixed wave. Some months we have seen the demand is good, some months, the demand is slightly tepid. So, how is the current environment?

**V. Venkatramani:** Sure. So, demand performance has been extremely encouraging in the first quarter because performance was similar to what we have achieved in Q4, whereas Q1 is traditionally a weak quarter and volumes are normally at a discount of 20% to 25% as compared to Q4. So, from that aspect, yes, Q1 performance has been encouraging and the performance during the current month of July is also encouraging till date.

**Moderator:** Thank you. Next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

**Sneha Talreja:** Congratulations on a good set of numbers and thanks for the opportunity, sir. Would like to know more about new plant. You said that you would be spending Rs. 600 odd crores for 231,000 cubic meters. By when we can see that extended capacity? And how it will be paid and what could you be, you know, looking at the peak debt number there?

**V. Venkatramani:** I think, the plant should start commercial production around Q1 FY'25. We should probably start trial production in the last quarter of FY'25 and commercial productions to start in...

**Shobhan Mittal:** Actually...sorry, Venkat. I am interrupting here. I think we should...commercial production would probably start quarter two, FY25. Because of the longer lead times from the plant supplies.

**V. Venkatramani:** Okay. Sure. Okay. And so, I think, you know, we would assume that the plant achieves full capacity utilization in the third or the fourth year of operations.

**Sneha Talreja:** Sure. Any greenfield plant being simultaneously planned?

**V. Venkatramani:** No. Nothing at this point of time.

**Moderator:** We'll take our next question, that is from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** Congratulation for the great performance once again. What I wanted to check; did I hear the Capex number right? You have mentioned 231,000 CBM for Rs. 600 crores?

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

**Achal Lohade:** So, in that case, I am just trying to tally the number. If you look at the competitor, who is adding a brownfield 132,000 CBM for about Rs. 250 crore, that translates into about Rs. 19,000 per CBM Capex, while we are talking about Rs. 26,000 per CBM. Can you help us understand, because if I look at even ours, when it was a greenfield one in South, we had spent about Rs. 720 crores for 360,000 CBM, which translates into Rs. 20,000 per CBM. That was greenfield. So just perplexed in terms of, if you could clarify on this Capex per CBM?

**V. Venkatramani:** See, I will not be able to clarify the competitors' numbers, because I do not know whether it is a European plant or a Chinese plant, and that could make a lot of difference with the comparison. As far as comparison with our older plant is concerned, yes, you are correct. There has been an inflation of about I think, 20%, 22% as compared to the cost, which was finalized in 2016. So, yes, raw material costs have gone up substantially, especially steel prices. And there has also been a depreciation of the Rupee versus the Euro. If we consider the earlier plant at the time, Euro was about Rs. 73 and currently, it is about Rs. 81. So that has also contributed significantly to the difference in prices across, over the last six years.

**Achal Lohade:** Understood.

**Shobhan Mittal:** Also, just to highlight here, MDF plant sizes, investment costs do not go up linear in relation to the capacity increase. So, it is not necessary that if the plant capacity is going up by 50%, that the investment costs will go up by 50%. It may only go up by 15% to 20%. Now, since we are installing this plant in Andhra, there are two variations here. This is a specialized line, which would specialize in production of thin panels, for which long presses are not suitable which we currently have in our plants. Secondly, this would also be a very fast production line in terms of the speed

of the press to make it specialized for thin panels, which does add to investment costs because production of thin panels is more challenging because they happen at high speed, and it adds to the investment costs to a certain extent as well. And because of the various crisis going on in the world, raw material prices have gone up drastically. And hence that is also impacting the investment number to a certain extent.

**Achal Lohade:** Right. If I understand correctly, it is to do with A) the product, the thin panel what we are looking for and hence the capex is also higher apart from the cost and the currency. If I were to ask you, at full utilization, what kind of revenue and the ROCE it can generate?

**V. Venkatramani:** See, to some extent, it would depend on prices prevailing at that point of time. But I think if we consider that current domestic prices and current mix of domestic and export, so, then it should give peak revenues of about Rs. 770 crores.

**Achal Lohade:** Right. But if given the kind of capacity additions we are seeing from the competitors and the kind of price hike the industry has taken in last about a year or so, do you see the risk to the current price, not being able to sustain that a year down the line? And in that case, how do we look at this ROCE effectively? Is that mid-teen? Is that high-teens, 20s post tax?

**V. Venkatramani:** So, it will also depend on at what point we are looking at the ROCE. Whether we are looking at you know optimum capacity utilization or at the beginning or the middle. So, it will be different at different points of time. And regarding realizations, I think we are not really looking at a major capacity addition, like something which happened during 2018, when the country's capacity went up by 2.5x. So, this time this will be a more moderate kind of capacity increase, probably adding about 25% to 30% to the domestic capacity, and considering that the industry is growing at 15%, I don't think it will have a long term impact on the realization, but yes, definitely we could expect some short-term impact on realizations, because I think three large capacities will be operational within a period of 12 months to 15 months.

So, there is definitely bound to be some short-term impact on realizations. But in the medium and long-term, we are confident that the industry will grow at a fast pace and these capacities will be easily absorbed.

**Achal Lohade:** Understood. If I may ask a couple of more questions sir, with respect to the exports. Can you help us understand, how is the freight rate? How it is moved on a year-on-year basis, let us say for Q1 FY'23? What was the freight increase? And how much is the dollar price realization increase?

**V. Venkatramani:** So, there has been an increase of about 10% in freight rates in Q1 and I think we have taken about 6% increase in rates. Although, it has not been uniform across all customers. So, depending upon rates, increase in rates to different destinations, we have taken some price hikes, but yes, we have not passed on the full extent of the cost increase to the customers. So, post that, the export realizations for the current quarter are around Rs. 23,900.

**Achal Lohade:** Right. If you could give some clarity as to how the global MDF prices have moved compared to let us say, pre pandemic? How are they trading currently?

**V. Venkatramani:** Shobhan, can you take that please?

**Shobhan Mittal:** Yes. So, I mean, prices have moved up, which is also reflected in our own export business as well. However, with the dollar strengthening, prices have seen to stabilize and slightly started to sort of wean off and there has been a very slight, 3% to 4% reduction lately in the past month or two in the international markets. But they seem to be quite stable because that is being compensated because of the currency gain as well on account of the export business.

**Achal Lohade:** Right. Okay. Okay. Understood. And how do you look at these imports? How is it trending? And if you could help us in terms of landed cost, or the price difference between the landed cost of imports and the domestic price for thick and thin MDF, please?

**V. Venkatramani:** Imports have not shown any increase during the first quarter of this period. So, I think they continue to be on an average of approximately about 5,000 cubic meters per month. And without considering the movement in currency during the past one month, prior to that, thick MDF prices landed were approximately similar to domestic prices. And thin MDF prices were at a discount of 10% to domestic prices. But we will probably have to see that again at the end of July because of rupee depreciation.

**Achal Lohade:** Got it. And, sorry, just one clarification. As you said, you are not looking at significant capacity addition. Is it fair to say that the kind of current realization what we are seeing in the domestic market, that should sustain for at least next two, three quarters? Is that a fair assumption?

**V. Venkatramani:** Yes, I think it is a fair assumption.

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

**Ashish Kumar:** Hi, sir. Congrats for a good set of numbers. A couple of questions. One is that, given the fact that the prices seem to be holding on, do you think that there is a scope for the guidance that you had given for the EBITDA margins for the full year to be around the current 33% or do you think that will kind of still you will hold on to your 30% margins?

**V. Venkatramani:** Yes, I think, you know, it will depend on what kind of challenges we face on the raw material front and whether future demand environment is robust enough to permit us to take increase in prices. But looking at the current situation, I think probably we would be looking at a slight moderation of the operating margins, maybe somewhere around 26%- 27% for the remaining quarters this year.

**Ashish Kumar:** That's a big dip sir, given the fact that realizations are flat. Is the operating cost gone up by 5%, 6%?

**V. Venkatramani:** We are expecting increase in chemical prices, because of significant price movements on crude. So, that could happen at any point of time. We are not sure whether that may happen in quarter two or quarter three, because there is no direct connection between crude prices and chemical prices, although they are all derivatives of crude, but sooner or later, you know, higher crude prices translate into higher chemical prices.

**Ashish Kumar:** Right. Second question, sir, was around the capital allocation. Now that we have become net debt free, at a current run rate of a cash flow generation of roughly around Rs. 100 crore a quarter, our Capex over the next eight quarters is Rs. 600 crores. So, we are going to obviously generate a substantial amount of free cash over this period of time. And I assume that because it is an export, it may be advantageous to take advantage of long-term, low-cost ECA facility, as well as part of the project funding. So, how do you see that? How do you see cash being distributed out? Or do you want to keep it on the balance sheet? Because the delta between the ROC and RoCE is dependent for kind of capital structure, because keeping cash does not generate enough.

**V. Venkatramani:** Yes, I think we will definitely be looking at an ECA borrowing, which would depend upon the quantum of imported machinery. But considering significant price differential between international and domestic interest rates, we will possibly be taking the full extent of the ECA borrowing which could be approximately around Rs. 225 crores to Rs. 230 crores. And I think we would probably do the balance with internal accruals. And regarding application of future cash flows, I think that would depend on how the economy pans out over the next 24 months.

**Ashish Kumar:** Agreed, sir. But the fact is that we already are net debt free. We are sitting on Rs. 300 crore of capital and we are generating Rs. 100 crore of cash a quarter. So, would it, given the fact that over the next eight quarters the cash requirement is only Rs. 360 crores. So, does it make sense to let us say, go out and do a live dividend or a buyback? Because obviously, the next quarter is Rs. 20 crore net cash, will look like Rs. 100 crore net cash situation, right.

**V. Venkatramani:** See, we will also be repaying existing borrowings of around Rs. 50 crores to Rs. 60 crores per annum. So, I think probably free cash flows will be around Rs. 70 crores-Rs. 75 crores per quarter. I think probably we could do the project without any borrowings, but I think it is healthy to have cashflows in hand at any point of time, because that could probably enable us to take advantage of good opportunities which are available in future. So, like I mentioned, we will be taking the ECA borrowing, but distribution of surplus cash will depend upon how the business pans out over the next two years.

**Ashish Kumar:** Sure, sir. My limited point is that I agree with you to take the ECA borrowings, but the fact is cash on the balance sheet beyond net cash situation is returns diluted. And my request would be to for you to guys to think about as and when there is excess cash, to distribute back to the shareholders.

**V. Venkatramani:** Yes. We will definitely be thinking about that. But I also have a feeling that you should not be distributing surplus cash until you feel that there are no possible avenues for generating good returns which would probably compensate the shareholder better.

**Ashish Kumar:** So, are we looking at diversification beyond MDF in terms of investing?

**V. Venkatramani:** At this point of time, we are not looking at any diversification. We are not looking at any other capital expenditure plans. But like I mentioned, we will be definitely considering distribution of surplus cash to shareholders, but the decision will be taken at an opportune time.

**Moderator:** We'll take our next question from the line of Anika Mittal from Nvest Research. Please go ahead.

**Anika Mittal:** My first question was on anti-dumping duty on import of Plain MDF which has expired on 30<sup>th</sup> March 2022. Sir, as per my knowledge, no new notification has been released by the department for extending the sale. So, are you seeing any traction in demand due to this duty removal? Sir, I am asking on the antidumping duty on import of MDF. Or will there be an increase in the import share of MDF?

**Shobhan Mittal:** No, I don't. Yes, hi, you are right. There is no new anti-dumping notification been issued and there's no current active protection measures for the domestic industry. However, going back to the antidumping, even when it was in place, it was not a blanket ban across all countries and many countries were still allowed to sell material to India, which was prevalent any which ways. So, we do not foresee that the removal of this antidumping is going to create an additional challenge for the domestic industry, especially given the circumstance that the international market pricing has gone up drastically. And the fact that the rupee is considerably weaker as opposed to past.

If you talk about the cost in the coastal areas, that model has always been prevailing and obviously in coastal areas, there is the threat of competition from the imports. But the moment you start transporting material, then that benefit sort of weans off in my opinion, we do not foresee the non-existence duty is going to be any major challenge.

**Anika Mittal:** Okay. Okay. My next question is sir, on the innovative products. Sir, are you currently looking for any innovative products in that MDF category which will help in maintaining our edge over the other peers?

**Shobhan Mittal:** We are considering certain products developments within the MDF family but maybe different grades to create more niche segments, will be such as relevant of the same. The trials are ongoing. So, we are in the process of doing that at this point of time.

**Anika Mittal:** Sir, my last question is in the revenue expectation from the Capex. Sorry, I have not listened when you were telling that.

**V. Venkatramani:** Okay. Like I mentioned earlier, considering the current revenue mix of domestic and export, which is roughly 80% domestic and 20% exports, we are expecting revenue of about Rs. 770 crores at optimum capacity utilization and based on current prices.

**Anika Mittal:** So, you are saying Rs. 1070 crore, right? If I am not getting it wrong.

**V. Venkatramani:** Rs. 770 crore.

**Anika Mittal:** Okay. INR 770 crore. Okay.

**Moderator:** We'll take our next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

**Nikhil Agrawal:** Sir, I wanted to know your percentage of volume and value mix of pre-lam and Plain MDF.

**V. Venkatramani:** Okay. So, during the current quarter, so I will put it like this. Plain MDF contributed about 106,000 cubic meters and pre-lam contributed about 17,000 cubic meters. And apart from this, apart from this, flooring contributed 1,486 cubic meters and veneered MDF contributed 51 cubic meters. So overall, MDF volumes were 125,029 cubic meters.

**Nikhil Agrawal:** Yes, sir. And sir, do you plan to take or increase the proportion of pre-lam MDF going forward, because they have higher realizations and margins according to my understanding.

**Shobhan Mittal:** Basically, the market ratio of pre-laminate versus plain is fairly sort of constant and consistent. Idea is, be assured, I mean, it is always a push for us to increase the percentage of pre laminated share, because as you rightly said that it is high value addition and more profitable. But there is a limit to how much more of as a percentage that can increase because that market trend of consumption remains fairly constant you know as a percentage. For example, in the particleboard segment, the consumption of pre-laminated particle board is much higher compared to that of the MDF segment because particle board is only focused on the OEM segment, whereas when it comes to MDF, there are many other applications which go into the skeleton of the products where pre laminated may not be suitable. But sure, as a company, there is always a push for increase of pre laminated MDF.

**Nikhil Agrawal:** Okay. Okay, sir. So, with the EPCG benefit now being realized completely, will you be reducing your exports all the more going forward?

**Shobhan Mittal:** You see, exports currently is a profitable proposition for us. Sure domestic is of more preference but export is also profitable. And it is a good sort of balancing factor for us in terms of dividing our risk, as well as dependent on the domestic demand. So, we will continue to have some allocation for exports. Please also do note that while the new plant is commissioned, we will have a substantial imported element in that as well, which will further create additional export obligation and then it would also support in bringing the new manufacturing facility up to optimum production capacity in a faster time, Hence, we would like to keep the export business running based on that as well.

**Nikhil Agrawal:** Okay. Sir, what would be the volume and value mix for export and domestic currently?

**V. Venkatramani:** Like I mentioned, the ratio is about 80:20. So, and out of the total volumes of 125,029 cubic meters, domestic sales were 98,428 cubic meters and export volumes are 26,601 cubic meters.

**Nikhil Agrawal:** Okay, sir. Okay, great. And sir, just one last question. You plan to take on debt for the new plant that is that has been commissioned, that has been approved. So, like when do you plan to take the debt and what would be the cost of borrowing?

**V. Venkatramani:** So, I think most of the borrowings will happen in the next financial year when the components are imported from Europe, and the bulk of the debt will probably be an ECA borrowing from German banks. So, at the moment I will not be able to give you a specific cost of the debt, but yes, an ECA borrowing is far more economical than domestic borrowing, even if we consider the currency hedging costs.

**Moderator:** We'll take our next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Sir this MDF utilization of 81%, how much can it max out in your 660,000 CBM? And this capacity of yours, what max revenue is possible?

**V. Venkatramani:** I think, at the moment, I will say that we can achieve 100% capacity utilization because I do not know how far beyond 100%, we can go unless we actually reach that stage. So, I would say we can achieve around 660,000 to 665,000 cubic meters on that capacity. And revenue to some extent will depend upon the mix of domestic and exports that we will be doing. So, probably I think if we look at 85%,15% ratio for FY' 24, I think we will be doing approximately Rs. 2,000 crore revenue from the existing capacity.

**Pritesh Chheda:** Okay. And your new capacity will come in FY'25, right?

**V. Venkatramani:** That is correct.

**Pritesh Chheda:** So, what kind of volume growth do you expect for this year, i.e., FY'23? So, you did about 495,000 tons last year. You will fully utilize the capacity this year?

**V. Venkatramani:** No, definitely not. I think you know that the steps that central banks across the world and also the rate increases by the RBI is going to have some impact on the economy. So, although we are not very sure about when that will happen, whether it will happen in the second quarter or the third quarter, but we feel that it is going to have some impact sooner or later on discretionary spending by consumers. So, I think we are looking at a 10% to 12% volume growth in the MDF segment during the current financial year.

**Pritesh Chheda:** Okay. And lastly sir, so why did you call out for a margin of 26% versus 30% of last year and 33% of quarter one or 31% to 32%? Why did you call out a margin of 26% in MDF? I was unable to comprehend your comments there.

**V. Venkatramani:** Okay. So, crude prices have increased significantly, and we have not seen any increase in chemical prices since January this year. In fact, we had seen some reduction in chemical prices during the beginning of the year. So, I think at some point of time, although there is no direct timing difference between increase in

crude prices and increase in our chemical prices, which are basically derivatives of crude, but at some point of time, we think that the difference will catch up and we will see some increase in chemical prices.

Now, depending upon the demand conditions in the domestic market, we may not be able to pass on the full extent of those cost increases to the market. So, yes, considering that we might not be able to pass on the cost increases, I had forecasted lower EBITDA margin for the remaining period during the current financial year.

**Pritesh Chheda:** Sir, is it your estimate or it is actually happening in your opinion?

**V. Venkatramani:** It is my estimate. Or rather I would say, it is our estimate.

**Pritesh Chheda:** So, as of now you think that chemical prices will rise based on your experience?

**V. Venkatramani:** Yes, we think that.

**Pritesh Chheda:** That's fine. You will not be able to take the price hike?

**V. Venkatramani:** No. I am not saying that we will not be able to take the price hike, but what I am saying is that our ability to take price hikes will depend upon demand conditions at that point of time.

**Moderator:** And next question is from the line of Balaji Vaidyanath from NAFA Asset Management. Please go ahead.

**Balaji Vaidyanath:** Just wanted to check in terms of this wax effluent plant that, I mean, we did this brownfield, and it was supposed to save a lot of spillage and wax etc. So, have we seen the full benefit of that, or we can still expect some more benefits to accrue due to this brownfield?

**V. Venkatramani:** Yes, the major part of the major part of that benefit is already reflected in the Q1 numbers. But probably a very small part could be realized in the second quarter.

But yes, you are correct, I would say, almost 90% of that benefit is already reflected in the current numbers.

**Balaji Vaidyanath:** Okay. And so, I mean, so this is not going to offset any increase in chemical prices, right?

**V. Venkatramani:** No, no. Like I already explained when we were discussing that capital expenditure last year, so, wax machinery was only going to give me a benefit of about, I think Rs. 50 lakh per month. That is what I had said at that point of time.

**Balaji Vaidyanath:** Okay. So, also sir, on this new facility that you mentioned, is in the same premises as that of our existing Andhra facility?

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

**Balaji Vaidyanath:** And in terms of technology, if you could help us understand, I mean, your existing South facility is state of art with world-class German machineries. So, this new incremental capacity is all going to be the same or it is going to be anything different that we can expect?

**Shobhan Mittal:** Yes. So basically, I mean the technology is fairly similar. It is a European continuous press that we will be installing. Basically, the idea is that this line, which specializes in production of thin panels, because the existing press in the South plant is very long. So, it is good for producing high capacity. But the moment you start producing thin panels on this, the capacity drops drastically due to limitations of the press speed. Hence, the capacity drops very drastically, and hence, we do not currently service that segment of thin panels, especially from the South plant.

So, this line is, let us say designed to be specialized in thin panel production line, which would give us an opportunity to cater to this thin panel segment, which consists almost 30% to 40% of the MDF market.

**Balaji Vaidyanath:** Okay. Shobhanji, I just had one question related to international markets. We are currently seeing a lot of turbulence in the energy market, especially in Europe, with

no power costs actually spiraling out of control. So just wanted to get your perspective on the kind of MDF capacity that is there in Europe and whether some facilities have become unviable because of this current power situation and whether some facilities are shut down, and will that kind of keep the overall prices under check?

**Shobhan Mittal:**

As of now, you see, I mean it has not directly impacted the MDF industry or its pricing per se, because if facilities started to shut down or curtail production, prices will start inching up. So, as of now, prices seem to remain quite stable, to be honest with you. I think the impact of this is yet to be seen and may take some more time. I think it will also become more prevalent when the wintertime is arriving in Europe, to be honest with you. But as of as of this point of time, I do not think it is affecting the markets internationally per se. And moreover so, I think it will not impact us as a company to a large extent because European MDF production or mills in that region, are in no sort of competition or in similar markets is actually also as us. We are primarily catering to Southeast Asia and Middle East, whereas, the European mills are very, very focused on the local markets. So, it would not have any adverse or positive effect for us, to be honest with you.

**Moderator:**

Thank you. Our next question is from the line of Aman Madrecha from Augmenta Research. Please go ahead.

**Aman Madrecha:**

Hi, sir. Thanks for the opportunity. Sir, actually I wanted to ask in the last Concall, you mentioned that the likes of Vietnam and Indonesia are exporting to the U.S. or that used to be substantial exporters to India, and now they are exporting furniture to the USA. And given that, like you are mentioning that the margins could crop down to 26%. So can you also mention impact on the realizations? Like currently, we are talking blended realizations of Rs. 30,000 per cubic meter. So, basically, where can we see the realization by the end of this financial year? And what is the overall supply demand scenario in the overall market?

**V. Venkatramani:**

See, the supply demand scenario continues to be comfortable, because there is not any major capacity coming up this year. We are only expecting one new capacity of 130,000 cubic meters to be operational in the second half of the year. And it is

difficult for me to give you an estimate of what realizations could be at the end of the year, because like I mentioned, in case of increase in raw material, our ability to pass on those costs to the consumer will depend upon demand conditions at that point of time. So, while we are comfortable with the existing realizations, at this point of time, we are unable to confirm whether we would be able to take the further price increases without impacting volume in case there is an increase in raw material costs.

**Moderator:** We'll take the next question from Preet Jain, an individual investor. Please go ahead.

**Preet Jain:** Congratulations on great set of numbers. My question is for Shobhanji, Sir, on the unorganized side, currently, we are seeing in the investor presentation that unorganized capacity has increased to almost 30%. So sir, is unorganized competition a threat to our domestic industry, or they are just gaining the market share of imports, as imports have been currently reduced?

**Shobhan Mittal:** It is a mix of both, to be honest with you. I mean, the unorganized sector is definitely to a certain extent posing a threat to the domestic industry as well. There are also some malpractices going on with regards to the grading of the product and in the process and in fact, invoicing practices as well. So, I mean, it is a mix of both. It is a threat to us as well, as well as certain portion of the market share of imports which is the price sensitive segment, is being taken away as well. So, yes, I mean, to answer it plainly, it is not just imports, it is a threat to us as well.

**Preet Jain:** So, sir, in which region are they expanding?

**V. Venkatramani:** Okay to put some further details to your question. So, most of the unorganized MDF producers are based out of Northern India. Only one plant is based in South India. And you are right, although, they have significant presence in terms of capacity, in terms of market share, they are far lower. Just to give you a picture. In terms of capacities, they are probably about 30%-32% of the total market, whereas in terms of market share, there would probably be somewhere between 18% to 20%.

And like I mentioned, they thrive primarily on invoicing practices. They provide invoice only for a certain part of the total material value and the balance amount is settled in cash.

**Preet Jain:** And I have another question, sir. The margin guideline which you gave, 25%-26% that are on broad bases or are only of MDF?

**V. Venkatramani:** Yes. So, I mentioned 26%, 27%, that is for MDF. So, I think Plywood margins should be around the current levels of around 11% to 11.5%.

**Moderator:** And next question is a follow up from the line of Achal Lohade from JM Financial. Please go ahead.

**Achal Lohade:** Sir, any color on the timber price? How is it moved to the north and south respectively over the last one quarter and also on YoY basis?

**V. Venkatramani:** Okay. There has been hardly any movement in timber prices in southern India. Whereas in northern India, I think over the past one quarter, I think we have probably seen movement of about 4% to 5% in northern India.

**Achal Lohade:** And on YoY basis?

**V. Venkatramani:** YoY? Just one second.

**Achal Lohade:** And similarly, if you could also talk about the blended chemical cost increase on QoQ and YoY basis?

**V. Venkatramani:** Yes. I think YoY there has been about 20% price increase in Northern India.

**Achal Lohade:** And in South? It is the same?

**V. Venkatramani:** South, it is probably about a 4% increase.

**Achal Lohade:** Okay. And we are about chemical, sir, in same fashion, QoQ and YoY?

**V. Venkatramani:** QoQ, there has not been any movement in chemical prices, and year-on-year, of course, there has been a major increase, I would say, probably about 30%,35% increase in chemical prices year-on-year.

**Achal Lohade:** And sorry, if I am harping on this, what would be the, out of the total cost, how much wood we timber and how much of the chemical for MDF business, sir?

**V. Venkatramani:** See, pre-COVID, we used to have a ratio of 65% wood and 35% chemicals, but at current prices, timber and chemicals have an almost equal share.

**Achal Lohade:** Understood. And just one clarification on the Capex. If the if the steel price actually comes down, or normalizes, how is our contract structure? Would we get to benefit out of that are we still end up paying the same what we are committing right now?

**V. Venkatramani:** We would end up paying the same amount and that also goes for if there is an increase in steel prices. So, our prices are fixed irrespective of movement in raw material. We do not lose out in case of inflation, and we will not get the benefit of any price reduction.

**Achal Lohade:** Got it. And if you could, I do not know if you can, what is EBITDA margin for South and the North plant for first quarter?

**V. Venkatramani:** For the first quarter, North plant was 31.8%, South plant was 34.3% and the blended was 33.3%.

**Achal Lohade:** Right. And for the export for the first quarter?

**V. Venkatramani:** We do not maintain any records, which would enable us to give you an answer. So, that is just my own estimation. So, I think it is probably around 15% to 16%, but that is a very rough estimate.

**Moderator:** Our next question is from the line of Shubham Thorat from Perpetual Investment Advisors. Please go ahead.

- Shubham Thorat:** Good evening, sir. Congratulations for the robust numbers for the first quarter. So, my question is that, how do you think the input cost inflation environment will pan out in the coming future?
- V. Venkatramani:** See, it is very difficult for me to say how demand will, whether demand will be stable or will improve or will reduce, because there are so many variables. But yes, I think due to increase in interest rates and tightening up of the economy across the world, and even India, central banks are increasing rates all over the world. So, I think we will feel that impacts of those increasing interest rates. I think that could lead to a slowdown in demand as far as the real estate housing is concerned, and sooner or later that's also going to impact our business volumes.
- Moderator:** The next question is from the line of Anika Mittal from Nvest Research. Please go ahead.
- Anika Mittal:** Sir, my question is that you are saying that newer Capex will start earning revenue from FY' 2023, quarter two. Then sir, how are you going to see the results or the growth in financial year '23 and '24?
- V. Venkatramani:** Okay. So, if you look at, the last year, we did volumes of about 495,000 cubic meters, including domestic and export. And at full capacity we can produce with 660,000 cubic meters. We have almost 30% scope for increasing volume growth over the next two years. From 495,000 cubic meter to 660,000 cubic meters.
- Anika Mittal:** So, what are your revenue expectations for financial year '23 and '24? What is the revenue growth expectations?
- V. Venkatramani:** I think we will probably do around Rs. 1,900 crores to Rs. 2,000 crores this year, and we are probably looking at somewhere around Rs. 2,200 crores to Rs. 2,300 crores in FY'24.
- Moderator:** Thank you. Our next question is from line of Preet Jain, an individual investor. Please go ahead.

**Preet Jain:** Sir, my question is that sir, on the Capex side, sir, you are telling that the new plant which is coming can generate maximum Rs. 770 crores of revenue, which turns to be investment turnover of 1.25. Do you do not think that it is on the lower side of the current plant?

**V. Venkatramani:** Yes. See, we are not very sure about whether we will be able to have the same mix of value-added products at that new plant, because we will probably be attaining full capacity utilization around FY'27 or so. So, at the moment, we are considering lower revenue from the new plant, and there could always be changes in prices that could go both ways, higher or lower over the next three to four years. So, I think at this point of time, it is just a very rough estimate. And I think probably we could give you a better forecast just before the plant is scheduled to commence operations.

**Moderator:** That was the last question. I now hand the conference back to the management for closing comments. Over to you, sir.

**Shobhan Mittal:** We thank everyone for joining this call. We also look forward to speaking to everyone over the last call. If anyone has any further questions or clarifications, please do reach out to us. And we wish everyone, a very good evening and good weekend.

**V. Venkatramani:** Thank you everyone for taking time out to attend this conference, and I wish you all a good day and a happy weekend. Thank you.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Greenpanel Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines

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