

GPIL/2019-2020
13th November 2019

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National Stock Exchange of India Limited
Exchange Plaza, Bandra Kuria Complex
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Fax No. 022-2659-8237/8238/8347/8348
Symbol - GREENPANEL

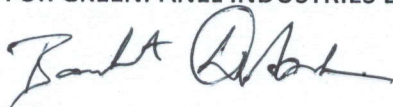
Dear Sir/Madam,

Sub: Conference call transcript

Please find enclosed Conference Call Transcript in respect of conference call for Investors and Analysts held on 7th November 2019 on the financial results of Greenpanel Industries Limited for the quarter and half year ended 30th September 2019.

The same is also being made available on the website of the Company 'www.greenpanel.com/investor-updates'.

Thanking You
Yours faithfully
FOR GREENPANEL INDUSTRIES LIMITED



BANIBRATA DESARKAR
COMPANY SECRETARY

Encl: As above



Greenpanel Industries Limited

Q2 & H1 FY20 Earnings Conference Call Transcript

November 7, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Greenpanel Limited Q2 & H1 FY20 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

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

Rishab Barar: Good day everyone and thank you for joining us on the Greenpanel Industries' Q2 & H1 FY20 conference call. We have with us today Mr. Shobhan Mittal – Managing Director & CEO and Mr. V. Venkatramani – CFO.

Before we begin, I would like to state that some statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation that was sent to you earlier. I would now like to invite Mr. Shobhan Mittal to begin the proceedings of the call. Thank you and over to you, sir.

Shobhan Mittal: A very warm welcome to everyone present and thank you very much for joining us today to discuss Greenpanel's Operating and Financial Performance for Q2 FY20. As most of you would be aware, Greenpanel Industries has now demerged and a separate entity. We listed on the BSE and NSE on October 23rd 2019.

Greenpanel is a focused MDF entity with some presence in the plywood space. We have 3 world-class plants; two for MDF and one for plywood. A plant in Uttarakhand has both plywood and MDF and we have another MDF plant in Andhra Pradesh. We are targeting increased capacity utilization in future quarters to increase revenues and improve margins in MDF.

As you are aware, the sector is constrained by overcapacity and imports have a significant share. We are hopeful that the government takes cognizance of this and ensures a level playing field. We also expect that there will be sustained efforts by the government on improving GST compliance which in turn will help reduce the price gap between organized MDF and non-organized plywood.

Let me run you very briefly through the financial numbers. Net sales were up 45% year on year and stands at Rs. 179.38 crore. Gross margin were down by 670 bps year on year and stand at 55.5%. This is primarily due to price reductions and a change in our domestic-export mix in MDF. EBITDA margins were up by 11.1% due to increase in capacity utilizations in both plywood and MDF. PAT is up by 5.2% year on year to 5.5 crore. 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 Q2 FY20 financial performance of Greenpanel Industries. In Q2, our top line was up by 45%



compared to the year-on-year quarter. Net sales stood at Rs. 179.38 crore compared to Rs. 123.83 crore in the corresponding year-on-year quarter. In Q2 FY20, our gross profit stood at Rs. 99.62 crore as compared to Rs. 76.97 crore in Q2 FY19, an increase of 29.4%. Gross margins were down 670 basis points due to price reductions and a change in our domestic-export mix in MDF.

EBITDA stood at Rs. 30.98 crore in Q2 FY20 compared to Rs. 7.67 crore in Q2 FY19, an increase of 304%. EBITDA margins were up by 1110 basis points. As Mr. Mittal mentioned, this was due to increase in capacity utilization in both MDF and plywood segments. Profit after tax stood at Rs. 5.5 crore for Q2 FY20 versus 5.23 crore in corresponding year-on-year quarter where we had a significant tax benefit due to the AP plant investment.

In H1 FY20, net sales stood at Rs. 377.83 crore compared to Rs. 247.9 crore in H1 FY19. Gross profit increased by 31.7% at Rs. 199.22 crore in H1 FY20 compared to Rs. 151.22 crore in H1 FY19. EBITDA stood at Rs. 58.51 crore compared to Rs. 33.45 crore in H1 FY19. PAT reduced from 19.33 crore in H1 FY19 to Rs. 8.21 crore in H1 FY20, primarily due to the AP tax benefit in the corresponding period.

Dispatches for plywood stood at 2.23 million square meters with capacity utilization at 84%. MDF sales volumes were 62,561 cubic meters with blended capacity utilization of both plants at 52%. Our debt-to-equity ratio stands at 0.82 as on 30th September 2019 compared to 0.91 as on September 30th 2018.

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

Moderator: We will now begin the question & answer session. The first question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Sir, there was some anti-dumping duty initiation from our front.. There was a request filed by you and Century for anti-dumping duty from some of the countries. Can you just let us know what is the procedure there and how long do we expect the final outcome to come in?

V. Venkatramani: We had provided all the data to the government to initiate the investigation into anti-dumping. The government vide a notification issued on 5th November has notified commencement of the investigation and concerned parties will be requested to provide any data in support that anti-dumping should not be imposed within a period of 45 days. I think, probably the government will complete the investigations and take a final decision on the matter within the current financial year.

Sneha Talreja: Can you also let us know how the realization trends are moving both in the exports as well as domestic market? Where are we right now? What is the breakup between both domestic and exports volumes as well as revenues?

V. Venkatramani: For the quarter, export sales were 16,490 cubic meters with a realization of 12,285 per cubic meter and domestic sales were 46,071 cubic meters with a realization of Rs. 23,147 per cubic meter.

Rohan: Can you please give us the capacity utilization for both the units in MDF?

V. Venkatramani: The Uttarakhand unit had a capacity utilization of 56% and Andhra unit had a capacity utilization of 50% during the current quarter with a blended capacity utilization of 52%.

Rohan: With this kind of utilization also, we were able to end the quarter with a positive EBITDA and also even at PBT level. At least, MDF segment also reported profit. So, just wanted to understand that this increased realization in domestic market – because I think export realization which you gave Rs. 12,000 still remains very low – Rs. 23,000 domestic realization has it helped, or has it increased significantly. I just

wanted to understand how this EBIT positive number in MDF is coming at 56% and 50% utilization?

- V. Venkatramani:** When we look at the fact that domestic realizations have fallen substantially over a period of 1 year, yes, we have undertaken a lot of activities to reduce the raw material cost and power cost and those activities are continuing. We are taking further steps to ensure optimization of resin consumption, and as capacity utilization scales up, we should also see further reduction in power cost. I think once capacity utilizations ramp up to around 80% to 85%, we could see further improvement in the EBITDA margins.
- Rohan:** Given the current scenario in the north, when are you expecting our north plant to go up to 80% utilization from 56% right now, Uttarakhand plant?
- V. Venkatramani:** We are targeting to do that by the end of the year. I think probably we would achieve that either by the March quarter or latest by Q1.
- Rohan:** So, by Q4 FY20, you think that Uttarakhand plant will be able to achieve 80% to 85% utilization?
- V. Venkatramani:** I think we should be definitely at 80% in Q4.
- Rohan:** Sir, are we still selling anything from north plant to south? Or where we are catering or other markets?
- V. Venkatramani:** It would be very minor. From the north plant, we are primarily catering to north and east including the northeast and the Andhra plant is catering to southern and western parts.
- Rohan:** As far as our competition is concerned, I think 1 plant of our competitor is fully ramped up, i.e., Century. Action, I think is still running maybe close to 40% utilization.
- V. Venkatramani:** I think probably it should be around 40% to 50%.
- Rohan:** So, both of you are running at close to 50% in north. So, achieving 80% to 85% by Q4, do you see that that would be possible for you or you have to take some price cut or aggressive pricing to achieve that number?
- V. Venkatramani:** No, we have clarity on one point that we will not be taking any price cuts to increase the volumes. We are targeting to increase the distribution network which will provide access to more markets than we are present in currently. The second part is, we have also strengthened the team and also some new members have been brought on-board to ensure coverage of a larger area than we are doing presently. I think that will help us to achieve increased volumes in the next few quarters.
- Rohan:** The realization in Rs. 23,000 is close to other competitors or how is the realization compared to competition?
- V. Venkatramani:** As far as the plain MDF realization is concerned, I think it would be comparable to Century. Action would probably be 1% or 2% lower than us. But the blended realization of 23,147 that I mentioned for the domestic space is a mix of plain, prelam, and flooring. So, there could be a difference with other manufacturers when you consider the blended realization, but as far as the plain MDF realizations are concerned, we would be on par with Century and both of us would be about 1.5% to 2% higher than Action.
- Rohan:** There was a significant availability issue of raw material in north. How is the availability of raw material now?

V. Venkatramani: I think there were issues with availability of poplar timber but as far as eucalyptus timber is concerned, we have not faced any issues.

Rohan: Okay, as far as eucalyptus is concerned, there is no problem?

V. Venkatramani: There is no problem.

Rohan: And in your plywood plant, you are using poplar variety, right?

V. Venkatramani: No, we continue to use eucalyptus in both MDF and plywood. However, in the plywood segment, raw material prices had gone up in July by almost 8% which had an impact on our plywood margins for the current quarter.

Rohan: So, you are saying that both of the plants are now based on eucalyptus, right? Then, why has only plywood seen further cost increase?

V. Venkatramani: It is primarily because the trees that are consumed for MDF have a life cycle of about 3 years and those used for plywood have a life cycle of about 6 to 7 years. Thus, there is a difference in the quality of the timber. The price increases have happened only in the timber which is consumed for plywood.

Rohan: And the pressure is continuous?

V. Venkatramani: We will have to see because we will start getting supplies of fresh timber from November. The season begins from November. We will have to see whether there is any improvement in the price from the current quarter. But the pressure was there in October.

Rohan: Sir, 50% utilization is south plant – Andhra Pradesh. When do you see the ramp-up to 80% to 85% being achieved there?

V. Venkatramani: Our target for Andhra plant is 60% this year. We would aim to reach 70% by the end of Q4.

Moderator: The next question is from the line of Siddharth Agrawal from Prudent Value Partners. Please go ahead.

Siddharth Agrawal: Sir, my first question is, could you also please spell out what your plans are for the plywood segment? After the demerger, how do we plan to take this business forward in the plywood segment?

V. Venkatramani: After the demerger, we saw a substantial fall in plywood sales last year primarily because we did not have the infrastructure, we did not have a separate sales team for plywood, and also as per the terms of demerger, we were required to sell our plywood under a new brand. So, we started building up the infrastructure and also the brand from around November last year, and over a period of now almost 1 year, we have been able to make substantial progress in plywood. We have had a capacity utilization of around 80% in 6 months of the current year and we are targeting 100% capacity utilization in the next financial year.

Siddharth Agrawal: Do we also plan to install new capacities in the segment? Is there something which prevents us from doing this as a part of the demerger agreement?

V. Venkatramani: Yes, we have a 7-year non-compete agreement. So, we will not be expanding in plywood.

Siddharth Agrawal: Sir, on the MDF side from what I understand is, MDF is primarily a B2B segment, i.e, it is not B2C as which is the case in the plywood side. So, as an industry, are there more efforts being done to convert this more from a B2B to B2C? Do you think it will be possible over time in India?

- V. Venkatramani:** If we look at the consumption model, it is B2B but if you look at the sales and distribution model, it is B2C because we do not sell MDF directly to the end consumers who are mostly small and medium furniture fabricators. We sell through a network of dealers and distributors pan-India. Our model is B2C but the consumption is B2B.
- Siddharth Agrawal:** Sir, you also mentioned that there is also an unorganized segment in MDF also which you expect that post GST, there would be some changes there. We would expect some benefit in the long run.
- V. Venkatramani:** I was not referring to the unorganized MDF segment because that is very small. It is not creating any major problems for us. I was referring to the fact that the plywood segment has a huge unorganized segment. Overall if you look at it, about 70% to 75% of the total plywood industry is unorganized and about 35% of the total plywood market is completely unorganized. So, we are targeting that bottom 35% of the plywood segment to increase our market share in MDF.
- Moderator:** The next question is from the line of Naitik Modi from OHM Portfolio Management Services. Please go ahead.
- Naitik Modi:** Can you please give us a brief overview of the MDF industry in our country today in terms of its capacity and utilizations?
- V. Venkatramani:** We have about 13 lakh cubic meters of domestic MDF capacity, and over and above that, imports would be in the range of about 2,50,000 to about 3,00,000 cubic meters per annum. So, including imports, the total capacity is about 15.5 to 16 lakh cubic meters and the domestic market currently would be of around about 9 lakh cubic meters.
- Naitik Modi:** This is the demand you are talking about?
- V. Venkatramani:** Yes, that's the demand part, about 9,00,000 cubic meters – the domestic market size.
- Naitik Modi:** Is there no viability of exports for this product?
- V. Venkatramani:** We are doing exports. I would not say it is nonviable, but it is a low-margin business. We are currently doing exports to have a higher capacity utilisation which enables us to reduce our fixed overheads and secondly, we also have some pending export obligations for project imports. So, exports is helping us to fulfill those obligations. If you look at the current half year, out of our total MDF volumes, about 35% comes from exports.
- Naitik Modi:** What is the demand growth for this product in our country?
- V. Venkatramani:** Currently, it would be in the range of about 15% to 17%.
- Naitik Modi:** So, it is still a few years away from balancing. Alright, fine.
- Moderator:** The next question is from the line of Mohammed Patel from Blue Banyan Advisors. Please go ahead.
- Mohammed Patel:** Congratulations on a good set of numbers. My question is on cost of debt. The cost of debt is around 5.5% as of H1 FY20, and as per your FY19 annual report, it shows that there is a Europe loan of something around Rs. 326 crore which says the effective interest rate is Euribor minus some 0.3%. Sir, can you help me understand what is the effective cost of debt on that loan?
- V. Venkatramani:** The effective cost of debt is Euribor plus 0.5%. Since Euribor is currently negative, we do not get the benefit of that negative rate. So, it is considered as zero and so we are paying 0 plus 0.5%. So, effectively it is 0.5%.

Mohammed Patel: And what is the repayment for FY20 and FY21 if you can, total borrowings?

V. Venkatramani: We will be repaying about Rs. 80 crore in the current year and approximately Rs. 72 crore in FY21 and FY22.

Mohammed Patel: Another question is, if there is any CAPEX that you would do in FY20 or FY21?

V. Venkatramani: We will be doing some small maintenance CAPEX, but I think that would probably be under Rs. 10 crore per annum.

Mohammed Patel: All the major CAPEX we have already covered?

V. Venkatramani: That's correct.

Mohammed Patel: If you can throw some light on competition in India per se, what is the competitive landscape and how are we positioned? What makes Greenpanel different from others?

V. Venkatramani: As I mentioned, India has surplus MDF capacities currently because of three big capacity additions in the recent past; Century's 2,00,000 cubic meter capacity, Action's 2,25,000 cubic meter capacity, and our Andhra Pradesh capacity of 3,60,000 cubic meters came on board within a period of about 9 months. So, capacities in the country went up by about 2-1/2 times. That has created surplus capacity in India and it will probably take about 2-1/2 to 3 years before we see a normal demand-supply ratio. The major manufacturers are Greenpanel, Action, Century, and Rushil. Rushil has a small capacity currently of 90,000 cubic meters but they have been projecting to start their new plant in Q1 FY21 which would probably be another 2,00,000 cubic meters capacity. That's the broad competition landscape.

Mohammed Patel: What would you expect the top line growth going forward over the next 3 years let's say? And range of EBITDA margin if you can.

V. Venkatramani: Like I mentioned, we are targeting about 62% to 63% capacity utilization in the current year and we would be targeting a capacity utilization of about 80% in FY21 and full capacity utilization in FY22, although in the MDF space, it would be a mix of both domestic and exports as far as the mix is concerned. For the capacities we are targeting, we would be expecting EBITDA margin of about 16% in the current year, about 18.5% in the next financial year, and about 21% in FY22. This is for the MDF space.

Mohammed Patel: What domestic-international mix you are comfortable with? 50:50, 40:60?

V. Venkatramani: We are targeting about 65% domestic and about 35% exports.

Mohammed Patel: This should be the ideal range?

V. Venkatramani: It's not the ideal range but considering that we have a lot of surplus capacities, I think that's a more realistic expectation.

Mohammed Patel: Last question, on the effective tax rates going forward?

V. Venkatramani: We should have a tax rate of about 30% for all the 3 years.

Mohammed Patel: 30%?

V. Venkatramani: Yes, because although our cash payout would probably be around 17.5% but there would be deferred tax expense of the balance 12.5%. So, I would say about 30% annually.

- Moderator:** The next question is from the line of Vivek Kochar, an individual investor. Please go ahead.
- Vivek Kochar:** Sir, I am trying to understand the role of Chinese supply into India.
- V. Venkatramani:** Like I mentioned during the call, domestic manufacturers had lodged a complaint against the exports which were coming from 5 other Asian countries into India which were in turn being subsidized by the governments of those countries. So, our government has announced commencement of investigation into exports from those countries. This notification was issued on 5th November and we think that the process will probably be completed during the current financial year and post the investigations if countervailing duty is imposed on imports, that would help the domestic industry to have a more level playing field. If we compare the prices of domestic versus imports, domestic prices are currently at a premium of about 8% to 10% as far as the thick MDF is concerned and at 25% premium as compared to the thin MDF. It would depend on the percentage of countervailing duty that is imposed on imports, but we are expecting that there would be a reasonable duty imposed so that it would help the domestic industry.
- Vivek Kochar:** What is the interest cost that we can assume on the Rs. 500 crore debt?
- V. Venkatramani:** We are estimating interest cost of about Rs. 34 crores for the current year which includes provision of currency loss of Rs 12 crores for Euro currency borrowings and probably it will move down to about Rs. 31 crore in FY21.
- Vivek Kochar:** Sir, if it is an appropriate question, what is the market share between the thick and thin MDF in the domestic current demand?
- V. Venkatramani:** Approximately 65% to 70% would be thick MDF and the balance would be thin.
- Moderator:** The next question is from the line of Gaurav Agrawal from Bowhead Investment Advisors. Please go ahead.
- Gaurav Agrawal:** Sir, just a couple of questions. One is on the plywood. Since we are running the Rudrapur plant, as per our arrangement with the erstwhile Greenply Industries promoters, can we have a third party manufacturing tie-up with other plywood manufacturers and we can put our brand on those products and market it? Is it possible?
- V. Venkatramani:** We have not really thought on this subject currently because our initial targets would be to have full capacity utilization. In fact, if we look at the past, we have reached capacity utilizations of about 115% to 120%. Our targets for the next 2 to 3 years would be to reach the optimum capacity utilization and post that if we feel that there is a market which can be tapped for further improvements in our capacities, we will then discuss the matter with Greenply.
- Gaurav Agrawal:** So, as of now, in the plywood, our focus is limited to the Rudrapur plant where we manufacture a very high quality plywood?
- V. Venkatramani:** Yes.
- Gaurav Agrawal:** No plans to get into the lower variety of plywood as of now at least?
- V. Venkatramani:** That's true.
- Gaurav Agrawal:** Sir, on the MDF side, we keep on hearing from the other players that the north market is insulated from the imported MDF. Just like the way you gave us the price difference between the domestic and imported prices for thin and thick, this is mainly for the southern region or is it is on a pan-India basis?

- V. Venkatramani:** This is basically for the port areas. That would cover in the southern states – Andhra Pradesh, Tamil Nadu, & Kerala and Maharashtra & Gujarat is the western belt.
- Gaurav Agrawal:** But sir, how would this comparison hold in the northern area where ports are located very far?
- V. Venkatramani:** The reason why the north market is relatively insulated from imports is the freight cost for bringing material from the port areas to the interiors of the north where the freight cost alone would be in the range of about 12% to 30%. That's what is helping to keep the north markets insulated from imports.
- Gaurav Agrawal:** This 12% to 13%, it is equal for thin as well as thick because on a per truck basis, the weight would it be more or less the same?
- V. Venkatramani:** That's correct.
- Moderator:** The next question is from the line of Siddharth Agrawal from Prudent Value Partners. Please go ahead.
- Siddharth Agrawal:** Could you please help us with what are the major raw material constituents for MDF in terms of percentages? How much is wood pulp cost, resins, etc.? What are the key raw materials and what are their cost contributions to the raw material?
- V. Venkatramani:** The major raw materials are wood and chemical resins for both plywood and MDF. The only difference is in the ratio of wood and chemicals for both these product segments. In plywood, the ratio of wood and chemicals would be in the range of about 80% wood and 20% chemical resins, and in MDF, it would be 65% wood and about 35% chemical resins.
- Siddharth Agrawal:** Sir, are these chemical resins easily available in India?
- V. Venkatramani:** Easily available.
- Siddharth Agrawal:** Sir, the raw material breakdown that you gave is cost basis, right? Roughly 80:20 and 65:35?
- V. Venkatramani:** Correct.
- Siddharth Agrawal:** Sir, what is roughly the transportation cost per unit? For instance, per cubic meter, from say Andhra to Uttarakhand if we have to do it? Just to understand how difficult it is to transport from any port areas to back to the northern markets in India.
- V. Venkatramani:** Our blended freight cost pan-India for both the MDF plants is about 5% during the current half year, but if we look at transportation cost from Uttarakhand to Andhra, I think that would be close to about 12% of selling price.
- Gaurav Agrawal:** Another question was in terms of your competition that you are having, would you say that you would have the highest realizations among all the brands that are there?
- V. Venkatramani:** If you look at the blended realizations, definitely we would be having the highest realizations but if we compare on a plain MDF basis, like I mentioned earlier, we are on par with Century and about 1.5% to 2% higher than Action.
- Gaurav Agrawal:** Sir, in terms of future capacity, I know that one of Rushil's plants is coming through. Are there any further plants lined up in the immediate future?
- V. Venkatramani:** No, nothing other than that.
- Gaurav Agrawal:** The basic assumption would be that this segment will not have unorganized players because there is a minimum CAPEX required to start your operations.

- V. Venkatramani:** I think it's not completely correct because we have seen some unorganized players setting up small capacities based on second-hand Chinese plants. So, it would not be completely correct to say that we will not have an unorganized segment in MDF, but I think what we can assume is that they will not be a major threat to the organized MDF industry because it is difficult to be profitable on these small capacities.
- Gaurav Agrawal:** Sir, in this MDF segment, does brand really matter? Because the end consumer could be these furniture fabricators or architects or contractors. For them, would the cheapest cost matter or the brand also matters?
- V. Venkatramani:** At the moment, MDF is an extremely price conscious market where brand plays a secondary role, but yes, once we are reasonably close to the optimum capacity utilizations, we will take steps for branding.
- Gaurav Agrawal:** Just like what you do in Greenlam, you will also do a consumer-oriented branding for your Greenpanel brand?
- V. Venkatramani:** That's correct.
- Gaurav Agrawal:** Currently are you doing any branding sir? What's your advertising cost or marketing cost as a percentage of sales?
- V. Venkatramani:** Currently what we are doing is all in the BTL space. We are not doing any advertisement activities in ATL. Currently, our branding costs are about 1.5% of the sales.
- Moderator:** The next question is from the line of Ajay Bodke from Prabhudas Lilladher. Please go ahead.
- Ajay Bodke:** I might have missed. So, it might be repetition. In the MD & CEO's message as part of the presentation, you mentioned that the company is targeting increased utilization of capacity in the future quarters to increase revenues and improve margins in MDF. In the 2nd quarter, I think we have seen an inching up of utilization levels to 52% in MDF. So, in the short to medium term, what is the outlook in terms of say for the 2nd half of the current financial year and going forward for FY21, what are the numbers that you would be comfortable with looking at the current demand-supply scenario for MDF in particular?
- V. Venkatramani:** As far as the 1st half is concerned, we have achieved a capacity utilization of about 56% in MDF and our target will be to have a capacity utilization of about 70% in the 2nd half, and for FY21, we would be targeting a capacity utilization of about 80% to 82%.
- Ajay Bodke:** Also you mentioned that the fact that the sector is constrained with overcapacity and there are certain expectations that the company has expressed for the government to act on. In terms of the interaction with the policy makers for the industry as a whole, how hopeful are you about both the expectations in terms of the sustained imports that are coming in and your plea for a level playing field there, which I presume must be expectation of raising of duties and secondly also on the GST compliance if you could give us some color as to how sort of that has panned out in terms of improvement in compliance and gaining of market share by the organized MDF players and how far one has to traverse in that journey from hereon?
- V. Venkatramani:** As far as the imports is concerned, the government has already taken action on the complaints of the domestic industry. It has issued a notification on 5th of November for initiation of anti-subsidy investigation concerning imports of fiberboards from Indonesia, Malaysia, Sri Lanka, Thailand, and Vietnam. The domestic industries have already provided the data to the government, and based on this, the government has initiated this investigation which we expect to be completed by the end of the current

financial year, which could lead to imposition of countervailing duties on imports of MDF. That's on the imports.

Maybe not immediately, but the government is saying that they will be announcing some incentives for the real estate sector. The real estate sector has been in a slowdown mode for the past 3 years, and now with the government stating that they will be announcing some incentives for real estate, we feel that we could see some improvements in real estate over the next couple of years which would help us to improve our capacity utilizations, primarily because the real estate is our largest customer. Almost 65% to 70% of MDF in India is consumed for furniture manufacturing. The slowdown in real estate has also impacted our industry. So, any incentives by the government for real estate could also help the domestic MDF and plywood industries.

- Ajay Bodke:** Sir, on the GST compliance if you could just throw some light?
- V. Venkatramani:** The government has started the process with e-way bill which definitely has helped some improvement. Earlier, a lot of unorganized plywood sales used to happen without any invoices. I think that has come to an almost complete stop, although a lot of invoicing is still happening in the range of about 30% to 50% of the actual material value. We are hoping that with the government concentrating on revenues from GST, there would be cracking down on the unorganized plywood segment so that they improve their invoicing levels and consequently provide a more level playing field for the organized manufacturers both in MDF and plywood.
- Ajay Bodke:** Also, on a quarter-on-quarter basis, how have the realizations panned out in case of MDF?
- V. Venkatramani:** It has been flattish. If we compare Q2 to Q1, it has been flattish.
- Ajay Bodke:** In view of the severe competitive intensity that the industry is witnessing, can one assume that the bottoming out in terms of average realizations for MDF has happened in the 2nd quarter or do you expect further pressure sort of as the utilization levels also go up of various players?
- V. Venkatramani:** At the moment, we are not expecting any further downtrend in prices, although we are also not expecting any improvement in pricing during the current financial year.
- Ajay Bodke:** So, the improvement in utilization levels that we are planning is 70% in 2nd half and further improvement in FY21, you are hopeful that the average realization levels for us
- V. Venkatramani:** Would be maintained, yes.
- Ajay Bodke:** A blend of both exports and domestic....
- V. Venkatramani:** Even then, as a matter of precaution, I have considered slightly lower realizations for MDF in the next financial year just because we are targeting a higher capacity utilization. Although our efforts would be not to reduce the prices, but for the sake of our estimates while calculating the margins, I have estimated 5% lower MDF realization for southern India next year.
- Ajay Bodke:** What is the sort of the export-domestic blend that one is expecting? Will it go up vis-a-vis what one saw in the 1st half of the current financial year?
- V. Venkatramani:** It was 65:35 for the current half, and going forward, our efforts would be to improve the mix with a positive bias on the domestic side.
- Ajay Bodke:** So far as the debt is concerned, in FY21, are there any repayments?

V. Venkatramani: We have approximately about Rs. 82 crore of repayment in the current year, and we would be repaying approximately Rs. 72 crore in FY21 and Rs. 72 crore in FY22.

Ajay Bodke: What is the average cost of debt that we have these loans at?

V. Venkatramani: Blended cost of total debt would be about 5.5%, primarily because our largest debt which is Euro loan from a German bank is Euribor plus 0.5%. Since Euribor is currently negative, the rate of that loan is 0.5% which has helped our total debt cost to be around that 5.5% level.

Moderator: The next question is from the line of Rohan from Edelweiss. Please go ahead.

Rohan: Once again question is on margin front in MDF. At Rs. 12,000 realization, what is the net loss we are having in exports per ton?

V. Venkatramani: At about 12,000, I don't think we have a negative margin in exports. It is making a positive contribution to the fixed cost.

Rohan: You are saying that at gross margin, at Rs. 12,000, we are not making any losses?

V. Venkatramani: Yes, that's right. I think at the EBITDA level, possibly the contribution would be around 6%.

Rohan: 6% at EBITDA level? Sir, that may not be the case because I think that our EBITDA per ton in Q2 was Rs. 3,885 per ton.

V. Venkatramani: It would again depend upon capacity utilizations also. At the current level, yes, we are not making any positive EBITDA margin but as the capacity utilization ramps up, once we reach 80 levels and beyond, there will be a positive EBITDA margin also.

Rohan: Sir, I will simplify my question. Even at these kind of utilization levels, we had 19.6% EBITDA margin in Q2 where 25% exports is still there where I believe our realization being so low, we may be having losses. So, the whole point is that at this kind of utilization levels, if our EBITDA margin is 19.6%, that at 80% and with the reduction in export share, shouldn't we be looking at 27% to 28% sort of EBITDA margin?

V. Venkatramani: No, at the moment, I think it is too optimistic. Based on the experiences over the past 1 year and the surplus capacities which we have in India today, even at 100%, I am targeting an EBITDA margin of around 21% to 22% but if there is a positive impact going forward, we will build that into future projections, but at the moment, we are not going beyond 21% to 22% at 100% capacity utilization.

Rohan: With keeping the export share the same, 25%?

V. Venkatramani: Not static at 35% because as capacity utilization ramps up, we will not be expanding the volume of exports in the same proportion. So, I think there will be a positive domestic bias.

Moderator: The next question is from the line of Mohammed Patel from Blue Banyan Advisors. Please go ahead.

Mohammed Patel: Which are the major export markets for us?

Shobhan Mittal: Currently, our major volumes of exports are going to the Middle East which would be Dubai, Oman, countries like that, and we are also doing a fairly substantial volume to Sri Lanka as well considering its own market size and then we have a certain amount of exports going to the Southeast Asian markets. These would be the primary focus areas for us.

- Moderator:** We take the next question which is from the line of Gaurav Agrawal from Bowhead Investment Advisors. Please go ahead.
- Gaurav Agrawal:** On the raw material side, how are you seeing the environment in the north as well as in the south?
- V. Venkatramani:** We have seen some pricing pressure on raw materials in the plywood space in Q2 where raw material prices, primarily the timber prices went up by about 8% in July but raw material prices have been stable in the MDF segment. Now the new season is starting from November onwards. So, we do not expect any further pricing pressure in either MDF or plywood.
- Gaurav Agrawal:** Sir, can you please help me with the seasonality part of this crop? When does this crop come? What is the seasonality in these prices?
- Shobhan Mittal:** It is a year-round cycle actually. The only problem we face is during the harvest season because what happens is in the north of India, eucalyptus trees are planted on the periphery of the fields. So, the only challenge comes when they are actually harvesting the primary crop which may be wheat or rice. At that time, they don't want to make the trees fall because then that falls on the primary crops and spoils the crop. That is the only challenging period where we face a little bit of shortage, but we plan our inventories in such a manner that we overcome those sort of fluctuations in supply.
- Gaurav Agrawal:** So, as of now, no particular challenge you see on that side?
- Shobhan Mittal:** No, the prices have been fairly stable. In fact, in MDF, to a certain extent, they have corrected as well. And it is a very short sort of cycle of plantation and harvest. Like Venkat said, it is a 3-year period. So, when they see prices inching up, then plantations also start happening and then the prices eventually correct themselves as well.
- Moderator:** As there are no further questions, I now hand the conference over to the management for closing comments.
- Shobhan Mittal:** Thank you everyone for joining this call. If there are any further questions or if any further information is requested, we will be happy to share that. Feel free to contact our team at Greenpanel. We look forward to speak to you again in the next quarter.
- Moderator:** Ladies and gentlemen, on behalf of Greenpanel Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.