GIL/2017-18
November 14, 2017

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
Scrip 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 November 8, 2017 on the financial results of Greenply Industries Limited for the quarter and half year ended 30th September, 2017.

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 Limited

Q2 & H1 FY18 Conference Call Transcript

November 08, 2017

Moderator Ladies and gentlemen, good day and welcome to the Greenply Industries Limited Q2 and H1 FY18 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 '*' and then '0' on your touchtone telephone. 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 Good day, everyone and thank you for joining us on Greenply Industries Q2 & H1 FY18 earnings call. We have with us today Joint MD & CEO, Mr. Shobhan Mittal 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 discussion maybe forward-looking in nature and may involve certain 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 Shobhan to begin the proceedings of this call. Over to you, Shobhan.

Shobhan Mittal Thank you, Gavin. A very warm welcome to everyone present and thank you very much for joining us today to discuss Greenply's operating and financial performance for the 2nd Quarter of the Financial Year 2018. I will talk briefly about the performance of our businesses before passing it on to Mr. Venkat to run you through the numbers for the quarter.

Our plywood business for the quarter grew at 1.5%, growth was higher in July and August due to restocking by the dealers, but tapered down in September. We think that will continue to be some pressure in the existing year. By the time the E-way bill system gets implemented which is likely to be by next financial year where we would see some shifts from the unorganized segment happening towards the organized sector.

Our MDF business declined by 1.6% during the quarter owing to a lower sales volume. Gross margins saw a marginal improvement due to higher realizations in the domestic market. However, currency losses to the tune of Rs. 6.03 crore on long-term borrowing for the new MDF plants in Andhra Pradesh impacted the MDF and overall margins. Commenting on Capex, our Gabon factory in West Africa for veneer production has already commenced operations on 3 peeling lines and the balance three lines will commence operations in December 2017. We are in the process of setting up a 13.5 million square meter new plywood manufacturing facility in Uttar Pradesh which is expected to commence production in the second half of the next financial year.

Our decorative veneer plants near Rajkot in Gujarat will also commence operations in FY2019. I must mention that given the challenges leading to a muted topline growth, our gross margins have expanded owing to better capacity utilizations and improvement in domestic MDF realizations. Our MDF plant in Andhra Pradesh is progressing on schedule and should get commissioned in September-October of the next financial year.

I would now like to hand over the call to Mr. Venkatramani for the financial numbers.

V. Venkatramani Good afternoon, friends. I thank you all for joining us to discuss the Q2 FY18 financial performance for Greenply Industries. Topline growth was muted in this quarter. Our topline grew by 2.1% compared to the corresponding quarter. This was largely on account of plywood which grew by 1.5% and contributed to 70.5% of the net revenues. MDF saw 1.6% decline in revenues owing to lower volumes and contributed 27.4% of the net revenues. In Q2, our gross margins improved by 70 basis points year-on-year to 46.7% due to better capacity utilization, better product mix and improved realizations in MDF.

Average realizations in plywood were lower by Rs. 7 per square meter from Rs. 233 in the corresponding quarter to Rs. 226 in the current quarter reflecting the end of excise exemption at the Rudrapur plywood unit. In Q2, MDF realizations are up by about 3% to Rs. 26,576 from Rs. 25,802 per cubic meter in the corresponding quarter. Domestic realizations were Rs. 27,638 compared to Rs. 27,038 in the corresponding quarter. Exports for the quarter were 4,264 cubic meters at an average realization of 16,239 per cubic meter compared to Rs. 15,957 in the corresponding quarter. Our MDF EBITDA margins, were down at 26% compared to 28.7% in the corresponding quarter primarily on account of the foreign currency losses on borrowings for the new MDF plant in AP. But for this currency loss, MDF margins would have been higher at 31% compared to 28.7% in the corresponding quarter.

Ad expenditure in the quarter was 4% compared to 3.5% in the corresponding quarter. EBITDA margins for the quarter were down by 90 basis points at 14.6% owing to currency losses on long-term borrowings and higher ad spends. Capacity utilizations in the quarter were 110% for the plywood segment and 93% for the MDF segment compared to 116% in plywood and 109% in the MDF in the corresponding year-on-year quarter. Profit after tax was up by 3.7% at Rs. 36.40 crore despite a subdued topline and currency loss of Rs. 6.03 crore.

CAPEX for H1 was Rs. 152 crore and we expect this to be Rs. 195 crore in the second half. The CAPEX spend will be on the AP MDF plant, the UP plywood plant and Gujarat decorative veneer plants and the Gabon face veneers unit. Given the disruption in the market due to the implementation of GST, our working capital turnover base has been stagnant at 62 days, although it has gone up by 4 days compared to the preceding quarter. Our debt-to-equity ratio now stands at 0.65 as on 30th September owing to incremental debt taken for funding our CAPEX requirements. That concludes my presentation and I 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 our first question from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah Couple of questions. One on the raw material prices, have they changed during the quarter and second is just wanted to understand the MDF realizations and domestic front where it has gone up?

V. Venkatramani We had taken a price increase in the first quarter of the current year, that is part of the reason for the increase in MDF realizations and the second part is there has been an increase in the volumes of the flooring business. These were the two major reasons for increase in realizations.

Nehal Shah And MDF prices were hiked by what percentage in last quarter which is Q1 FY18?

V. Venkatramani 5%.

Nehal Shah So these were the two reasons behind MDF realizations being high?

V. Venkatramani Yes.

Nehal Shah And sir can you comment on the raw material price, the timber prices over the last couple of months or last quarter, how have they panned out?

V. Venkatramani Timber prices have been stable, no major changes in prices.

Moderator Thank you. Our next question is from the line of Achal Lohade from JM Financials. Please go ahead.

Achal Lohade Sir, just wanted to check in terms of the MDF utilization, I see that the production volume was down 15% and utilization was below 100%. So would you be able to clarify what is the reason behind the same and how do we see it for the second half?

V. Venkatramani Yes, you are correct, production volumes were down by 15%. So I think we can put it down primarily due to the GST.

Achal Lohade So basically what you were saying is you have taken a price increase and given the GST, the volumes were down and so the production was down.

V. Venkatramani No, we have not taken any price increases in this quarter. The price increase was taken in the first quarter of the current year, but since prices have gone up because of GST, there has been lower demand in the current quarter. If we look at the previous quarter, the total tax impact considering a 2% CST and 14.5% VAT, total taxes were around 16.5% that has now gone up to 28%. So that is impacting demand.

Achal Lohade In terms of the guidance, how do you look at it for the full year in terms of the ply and MDF volume growth?

V. Venkatramani Wwe are still targeting that 5%-7% volume growth which we had guided for in the beginning of the year. We had a poor third quarter last year due to demonetization and hence feel that we might be able to achieve our target.

Achal Lohade 5%-7% volume growth in both the segments roughly?

V. Venkatramani That is correct.

Achal Lohade Sir, I also see that our logistics cost has come down YoY for the second quarter. Is it anything specific you would like to highlight how sustainable is it?

Shobhan Mittal I understand your question. So rates have not come down. There might have been a slight change in the destination mix. It has had marginal impact on logistics cost.

So logistics costs have come down by approximately 50 basis points in the current quarter.

Achal Lohade And just one data point, wanted to check I understand we would have trading sales in the ply segment, how much would that be and what would be the contribution in the second quarter of last year because the excise duty on that would have been part of the sales as well as raw material cost in 2QFY17?

V. Venkatramani During the current quarter, trading sales volumes were approximately 30% of the total and it was similar in the last year also. So there has been no change in the trading volumes in percentage terms. However, in volume terms, trading volumes have gone up to 4.07 million square meters from 3.87 million square meters in the corresponding quarter of last year.

Achal Lohade And would there be any excise duty on this 3.87 million square meters last year or?

V. Venkatramani Yes, there would have been some excise duty.

Achal Lohade So I was just curious to know because that would be part of our sales revenue. So effectively our revenue growth would have been better.

V. Venkatramani Not really because we are showing net sales. Our net sales were exclusive of excise duty. So there is no impact.

Achal Lohade I am saying 2QFY17 since this is traded, there would not be any excise duty required to be paid.

V. Venkatramani Even in the last financial year, there is no excise duty at our end. The excise duty is at the vendors end.

Achal Lohade Precisely. So that comes as a cost for us as well.

V. Venkatramani When we report volumes and realizations and corresponding numbers for last year, so they are on the same basis. We are reporting net sales. So last year also was exclusive of all taxes and current year is also exclusive of all taxes. **Achal Lohade** Even for the traded goods you are saying?

V. Venkatramani Yes.

Achal Lohade So it is more apple-to-apple comparison you are talking about when you talk about the revenue growth and margins?

V. Venkatramani Yes.

Moderator Thank you. We will take our next question from the line of Sagar Kharkhanis from Nirmal Bang. Please go ahead.

Sagar Kharkhanis My question was on the unorganized sector, the fact that they have not yet ceded market share. Does it mean they have adopted the new regime. What are your thoughts on the same sir?

V. Venkatramani The unorganized sector is also suffering as far as volumes are concerned. I would not say they are doing business at the same levels as they were doing in the last year. So definitely, there have been production cuts on the unorganized side, but as far as tax compliance is concerned, there has been no improvement at all. We were hoping that things would probably change with the implementation of the E-way bill system from 1st October, but now since that has been deferred to 1st April, so the unorganized segment is having a free run. Hence there has been no improvement in tax compliance as far as unorganized segment is concerned.

Sagar Kharkhanis So we can say that in FY18, we cannot expect any grid shift from the unorganized to organized happening in our industry?

V. Venkatramani I think it is quite correct.

Moderator Thank you. We will take the next question from the line of Rahul Agarwal from ICICI Prudential. Please go ahead.

Rahul Agarwal Sir, I have just one question on the margins. So when I look at plywood margins in this quarter, so we are ending at around 11% and the previous quarter, it was around 10.3%. So the revenue is pretty much that of YoY. So how should we look at it going forward and what is the focus from your side. Is it because the understanding was that the premium products are not selling and the margins will have some pressure. So how do you look at it?

V. Venkatramani There is some pressure on the plywood margins, although it is showing some improvement from the last quarter, but yes two things. One, topline growth is very low, it is only about 1.5% and second, the premium end of the plywood that is the decorative veneers that also having relatively bad time because it is a niche segment. So demand for decorative veneers is also correspondingly much lower than in the past. So both these factors are having an impact on the plywood margins. I think that once things start to improve, we can possibly look at something about 11.5%-12% for the plywood business.

Rahul Agarwal For the rest of the year and going forward, we should have that kind of number in our mind, 11.5%-12%.

V. Venkatramani I think once we have some reasonable growth in plywood even if we have about 6-7% growth in plywood and we also see some improvement in the decorative veneers business that should enable to improve the margins.

Rahul Agarwal So in the MDF side, we had a pretty stable margin this quarter. Given that Century is now starting up and they have quite aggressive targets. How do we look at the margins on this front?

V. Venkatramani I think with Century starting production, there could be some impact on the margins because their plant is also located in Northern India. So definitely competition will increase in Northern India and that could have some impact on the margins.

Rahul Agarwal Also, is there any figure you want to right now put into place which are not going to be operational in your sales?

V. Venkatramani It is difficult to give some figures for the short term, but overall longer period, so like we have been having a 28% EBITDA margin last year. So I think as we progress we will be moving to somewhere around 24%.

Rahul Agarwal Sir on the debt side, what would be our peak debt?

V. Venkatramani So we are looking at peak debt of about Rs. 675 to 700 crore.

Rahul Agarwal And we are expecting our production in September-October for the MDF plant?

V. Venkatramani	That is correct.
Rahul Agarwal	And for our plywood plant?
V. Venkatramani	Plywood plant, we are looking at Q3 of next financials.
Moderator	Thank you. Our next question is from the line of Tina Virmani from Kotak Securities. Please go ahead.
Tina Virmani	My question is on the realization front on the plywood segment like in the last conference call you had mentioned that you had taken a price hike of nearly 2% from the month of August, but when we see the plywood realization for Q1 as well as for Q2, they largely same at Rs. 227 in last quarter into Rs. 226 in this quarter. So was that hike not absorbed in the market fully or there was a sharp decline seen in the month of July which probably would have been compensated in the month of August. So what actually is the realization scenario for plywood?
V. Venkatramani	You are correct. We have not been able to implement plywood price hikes in this quarter. We will try and implement it in the current quarter. Secondly the lower volumes in the decotrative veneers business also impacted the plywood realisations.
Tina Virmani	So when we compare the margins in Q1 FY18 vis-à-vis Q2 FY18, there is an improvement in the plywood margins, like last quarter it was 10.1% and now it is 11%. And realizations have remained more or less the same at Rs. 226 to Rs. 227. So what led to this improvement in the margin? Is there some kind of cost saving measures or some kind of lower cost which were seen in the plywood division which have resulted in this improvement
V. Venkatramani	Correct. It is because we have had lower raw material cost in the plywood business that I would say is part of it and second part is we have been able to reduce wastages at the Rajkot plant which was happening earlier. So that has also contributed to the improved margins in plywood.
Tina Virmani	Okay**.** So what is the scenario on the raw material side, sir, because earlier you had mentioned that you have sufficient inventories to last till September-October. So how is the scenario now regarding the availability of core veneer as well as the face veneer?
V. Venkatramani	No issues as far as core veneer is concerned because that is procured entirely from domestic sources. I had mentioned that we had sufficient stock still September-October at the Myanmar unit. Sufficient timber stocks for the face veneer business in Myanmar. So currently, we are procuring face veneers from 3 sources, from our JV unit at Myanmar, from third parties in Indonesia and from our Gabon unit. So if there are any issues in Myanmar in future or even the entire Asian Belt like Laos has already implemented a ban on export of face veneers. There are issues at Myanmar and there could be issues in Indonesia in future also. So even if we don't get any supplies from the Asian Belt, our Gabon unit will have sufficient capacity to fulfill the entire requirements of Greenply.
Tina Virmani	Okay. So Gabon unit is operational currently?
V. Venkatramani	Yes, it is operational. we are currently operating three peeling lines and the balance three peeling lines will be operational in December.
Tina Virmani	This December?

V. Venkatramani This December, correct.

Tina Virmani And lastly sir from my side is regarding the restocking, like you mentioned that there is some kind of restocking seen in the beginning of the call, how is the restocking seen now in the current month of November or how is the demand seen, is it back to the levels where it was before implementation of GST?

V. Venkatramani We had a poor quarter in the first quarter of the current year when de-stocking by dealers before GST had major impact on our volumes. It improved substantially during July and August, but September was again impacted severely. October and November months are not expected to see any major growth movements due to the festivals across India. So I think if there is any improvement, it would possibly start from December.

Tina Virmani Okay, right. But the shift from the unorganized is likely to happen mostly from FY19 with this E-way bill implementation?

V. Venkatramani Yes. That is correct.

Moderator Thank you. Our next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta Sir couple of questions from my side. First is that you mentioned that 5%-7% sort of volume growth you are looking for full year despite 3% loss in the first half. So that implies almost 8%-9% growth for the second half while you mentioned that GST and until we don't see the E-way upcoming that is E-way will be coming in that not before April. So what is the green shoot you are seeing that why the second half growth will be 9%-10%?

V. Venkatramani I mentioned earlier that we had a poor third quarter last year because of demonetization and hopefully there will not be any similar experience this year. So the growth number should be better primarily because of the third quarter.

Rohan Gupta So it is only because of just low base **V. Venkatramani** That is correct only because of a low base.

Rohan Gupta And your own manufacturing volume has been affected while it is seen that in traded volume you still did in first half some 6%-8% growth. So that in low end category, where you do trading more, is still doing okay and high-end plywood is getting affected?

V. Venkatramani I think yes, we are seeing some shift happening because of the 28% GST. So possibly there is some cannibalization in the premium plywood segment and some volume shift happening in the medium segment.

Rohan Gupta But sir, if not so then in premium and plywood, the industry leader already command almost 70%-80% market share and that market is very tough for unorganized players to get in because there I believe that in high-end segment, it will be completely all the business would be done with a bill. So with a 28% GST, how unorganized players will be able to crack that segment or that premium market?

V. Venkatramani No. I am not saying unorganized players are cracking the premium segment. **Rohan Gupta** Premium end is shifting to low end.

V. Venkatramani Yeah. I would say possibly because of the impact of taxes in the premium segment prices are higher. Although because of input credit of GST, also premium plywood prices have come down to some extent, so prices before taxes have dropped by about 10%. But still because of the 28% GST, that is having a dampening impact as far as demand is concerned.

Rohan Gupta But sir is not so that 28% overall tax is implied tax, it is still about 25%-30% range, I mean before GST also.

V. Venkatramani I would say it is psychological., Earlier when a consumer was buying plywood, the invoice he was getting was from a dealer. So the full tax was not getting reflected there, consumer was probably seeing around 12%-14% tax.

Rohan Gupta But sir that is more of a psychological impact.

V. Venkatramani It is a psychological impact. I completely agree with you, but it is probably having some impact.

Rohan Gupta Though your growth has been slightly affected, but do you have any sense that how industry would have grown in the first half?

V. Venkatramani I think the entire industry must have de-grown, we have not seen anybody reporting growth numbers and as far as the unorganized is concerned, we have been receiving reports that they are cutting down production. So definitely there would be de-growth across the industry.

Rohan Gupta So even an unorganized and organized, everybody has lost.

V. Venkatramani Yes, **Rohan Gupta** So industry de-growth will be in a similar like 3%-4% de-growth or it will be higher?

V. Venkatramani I think it would be higher.

Rohan Gupta It will be higher than your de-growth?

V. Venkatramani Definitely higher than ours.

Rohan Gupta So despite all this GST and tax evasion and E-way bill not being there and all these things happening but then also you have gained market share?

V. Venkatramani I don't think.

Rohan Gupta You would have gained market share.

V. Venkatramani Yes, maybe the unorganized has lost more market share in terms of volumes. So it could be that we might have gained some market share. I am not very confirmed about that. We might have gained some market share, we might not have.

Rohan Gupta And sir, why I mean the whole industry has gone into from a growth number of 10%-12% despite even there has been weakness in real estate and everything last year also. But this year, you are saying first half have been 3%-4% de-growth in that industry. So why such a lull period you are seeing and have you ever experienced this kind of weakness in the industry in the past also?

V. Venkatramani I think we have been seeing declining volume over the past 3 years. It is not something which has happened in the current financial year. Overall, the real estate has been seeing a situation of inventories moving higher and we depend to a significant extent on secondary sales happening in the real estate. As long as residential units are locked up with developers or investors, there is no furnishing activity. It is only after the end consumer occupies the space that furnishing activity starts. So we have been seeing declining numbers in real estate and our line of business which is supplying of raw materials to the furniture industry. We have been seeing decline in numbers, maybe our declines have not been very sharp. But yes, there has been a decline across the industry.

Rohan Gupta And sir last question and then I will come in queue. On a gross margin, you have still reported some improvement in gross margins despite lower capacity utilization. So fall in the raw material has been much steeper, I mean we know that you have not taken any price increase, actually prices have come down only by 3%.

V. Venkatramani That is right. So like I mentioned, we are currently procuring face veneers from three sources, Myanmar, Indonesia and Gabon. And the inclusion of Gabon has led to improvement in the raw material cost. So we are having lower face veneer raw material cost.

Rohan Gupta Okay sir. all the benefit is only coming from Gabon,?

V. Venkatramani Yes. The benefit is coming only from Gabon.

Rohan Gupta And you have only one unit operational in Gabon as of now for face veneers?

V. Venkatramani Yes. We are having only one unit in Gabon. So currently only three peeling lines have been installed and the balance three peeling lines will be installed by December.

Rohan Gupta After December, how much of your total raw material especially veneer requirement will be met through Gabon?

V. Venkatramani 50% of Gabon's capacity is sufficient to meet our entire face veneer requirements.

Rohan Gupta Okay. So it means that after December there is some further room for gross margin expansion?

V. Venkatramani It could be possible depending upon how the mix moves.

Moderator Thank you. Our next question is from the line of Vaibhav Shah from ICICI Direct. Please go ahead.

Vaibhav Shah Sir, just wanted to seek understanding about the MDF, especially after the GST. I mean, we currently have the GST rate of 28% and earlier we had an excise of 12.5% and there was some benefit on the state level, right?

V. Venkatramani We were completely exempt from excise duty earlier. So we were only paying a 2% CST and we did not have any state level benefit. We only had excise exemption.

Vaibhav Shah So now, I mean this entire increase in the realization, is it also to offset the impact of the taxation?

V. Venkatramani No, taxation had no impact. In fact if we look at GST, we were supposed to reduce prices by 12.5% for removing the excise component from our prices and increasing it by 28% for GST. But since the government had reduced the benefit of the excise exemption, we would be entitled to much lower GST refund percentage because only 58% of CGST is available as GST refund. So our GST refund will be much lower than the benefits we had under excise exemption. So instead of reducing prices by 12.5%, we reduced prices by 5%.

Vaibhav Shah Sir would that have some implications in the Southern markets for the MDF in terms of the pricing if one is importing MDF from China or let us say other South East Asian countries vis-à-vis our own manufacturing. What would be the pricing difference post GST now?

Shobhan Mittal The pricing difference in the South of India continues to be very high between the domestic producers and the imports primarily because the cost of freight from the North of India is very high. So I wouldn't say that GST per se has made any difference to the price difference that already existed; however of course when the new plant starts, at that time due to the ceiling in the freight cost being located in the South, we would be able to narrow down the price gap substantially.

Vaibhav Shah So sir, earlier we were communicated that pricing difference was 12%-14% between us and the Chinese players which after the new plant 7%-8% logistic cost would reduce, I mean we would be competing with the Chinese. Plus post GST, this difference continues to remain at 12%-14%.

V. Venkatramani Yes, it continues to remain at the same level.

Vaibhav Shah Okay. And sir secondly, with regards to the Gabon, could you please give us some capacity detail and what would be the face veneer capacity there and how much production can it support for our entire operation?

V. Venkatramani Okay. We have the capacity to peel 35,000 cubic meters of logs and our internal requirement is approximately the yield from 17,500 cubic meters of logs. So that is what I meant when I said that 50% of Gabon's capacity is sufficient to meet internal requirements.

Vaibhav Shah And sir, could you also please throw some light in terms of quality of the Gabon Timber versus the Myanmar Timber and is there be any pricing difference. When we are consuming Gabon as the timber, would it lead to some improvement in terms of the margin going ahead for the plywood division?

V. Venkatramani Okay. This pricing difference between all the 3 grades of face veneers which are available from Myanmar, Indonesia and Gabon. So Myanmar would be about US $1,100 per cubic meter. Indonesia would be about US $900 per cubic meter and Gabon would be about $600 per cubic meter.

Vaibhav Shah And sir in terms of the quality?

V. Venkatramani In terms of the quality, it is all the same, I would say it is all hardwood timber. But yes, Gabon face veneers would be lighter in color compared to Myanmar and Indonesia. So instead of the deep brownish or reddish color which is available from Myanmar and Indonesia, Gabon face veneer's color will be slightly more of pink than brownish or reddish. So that would be the only difference, more of a perception difference than qualitative difference.

Vaibhav Shah So could this lead to margin expansion in future for the plywood division?

V. Venkatramani That is possible. Depending upon how the mix moves, there is some possibility to improve the margins. Although face veneers form a very small part of our plywood raw material requirements, in volume terms it would be about 10%, in value terms it would be about 16%-17%. So it is not a very substantial part of the plywood raw materials. So we could see some small benefits if the mix moves in favor of Gabon.

Moderator Thank you. Our next question is a follow up from the line of Achal Lohade from JM Financials. Please go ahead.

Achal Lohade Just wanted to understand this, on the MDF part, you said the current EBITDA margin is about 31% while post South commissioning, it would be 24% odd. So I am just curious to understand what would drive that margin decline?

V. Venkatramani I would say that there are two reasons. One, the capacity utilizations will be much lower in Andhra Pradesh. So we are expecting about 55%-60% capacity in the first year and there would also be higher mix of exports. So we are expecting that there would possibly be about 70% domestic and 30% exports and depending upon domestic demand exports could possibly be slightly higher. So that is the reason why I mentioned we could see MDF margins moving lower.

Achal Lohade So you are saying most of the margin drop is because of the South plant and not really anything to do with the Northern region?

V. Venkatramani Yes. Also there would be some impact on the Northern plant also because with Century now coming in and Action also increasing capacity, so competition would increase in the North and that would have some impact on the Northern plant margins also.

Achal Lohade These two new plants of the competition, they also enjoy the benefits of the GST related, the area based exemptions?

V. Venkatramani No, Century does not have any benefit because their plant is coming up in Punjab and Action is having some excise benefit, that GST refund now, but I don't really know how long it is valid.

Achal Lohade Understood. And in the existing volume, how much would be B2B and how much would be B2C, is there any overlap in terms of the distribution of MDF vis-à-vis ply?

V. Venkatramani So as far as our MDF business is concerned, it is all B2C, there is no B2B.

Achal Lohade There is no B2B, you are saying?

V. Venkatramani Yes. There could be some at the dealers end, but as far as our direct supplies are concerned, there is no B2B.

Achal Lohade Because I was just wondering in terms of the usage, it will be more for the readymade furniture, so the small time readymade furniture manufacturers would be the consumer of MDF for us?

V. Venkatramani Yes, you are correct. But like I mentioned, we do not supply to them directly. All the supplies are routed through our dealers.

Achal Lohade But we would have the marketing people actually attracting these customers, right, at the end of the day?

V. Venkatramani	Yeah sure. That is correct.
Achal Lohade	Okay. And in terms of the distribution, is there any overlap with the ply distributors or distribution channels?
V. Venkatramani	There would be some, so I think probably about 20% of the dealers would be common and 80% would be different.
Achal Lohade	Okay and just last question, on this face veneer thing, do you see, as you said 50% of the Gabon capacity is actually sufficient for our ply requirement. Do you see a scenario where we can also trade the face veneer in the market?
V. Venkatramani	Yes. We would be trading in face veneers. But since Gabon face veneer prices are comparatively lower compared to Myanmar and Indonesia, so it would not be very high in value terms. So possibly at peak it would be about Rs. 50 crore.
Achal Lohade	In terms of the trade sales value?
V. Venkatramani	In terms of the trade value, yes.
Achal Lohade	Okay. And just last question if I may sir, in terms of the gross margins or the raw material prices, have they been falling further or do you think the gross margin improvement on account of raw material prices already there in the base now and there may not be much improvement on the gross margin from here on?
V. Venkatramani	I don't think there is any scope for big improvement in the gross margins.
Moderator	Thank you. We will take the next question from the line of Vijay Karpe, an individual investor. Please go ahead.
Vijay Karpe	My first question pertains to the hedging decision that we have taken, as you would have received the full repayment schedule by now for the MDF plant?
V. Venkatramani	No, we have not received the full repayment schedule because the disbursements are not yet complet. The first repayment for the biggest loan which is from German bank will start 6 months after commercial production. So since the date of commercial production is not known today, so we do not know the repayment schedules.
Vijay Karpe	First of all, please tell me what were the half year revenues of Floormax?
Shobhan Mittal	Current half year revenues is Rs. 12 crore.
Vijay Karpe	And I think that Shobhan, you had mentioned in the previous concall that Floormax will do really well in FY19. Why so, why will it do well in FY19?
Shobhan Mittal	If you can see, I mean we are already seeing a substantial increase in volumes because both on the domestic front as well as on the export front, we have seen substantial volume growth coming in. So when we say really well, what we mean is of course that there will be substantial volume growth on account of flooring.
Vijay Karpe	Alright. One last question. See, whenever we look at the results of all the housing finance companies, we see that their loan books are growing at 20%-25% plus. So what I was thinking is when will this growth in their loan book trickle down to companies like us, like Greenply?

V. Venkatramani So normally there is a gap of about 2-2.5 years because when housing finance companies finance houses, most of them are in the construction stage and then it is a period of about 2-3 years before those houses are handed over to the end consumers and they start furnishing activity.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you sir.

Shobhan Mittal We would like to thank everyone for joining our Q2 call. If anyone has any further questions, please feel free to contact CDR or Greenply directly and with this, we would like to close this call. Thank you so much.

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