



Greenpanel Industries Limited **Earnings Conference Call Transcript** **May 06, 2022**

Rishab Barar:

Good day everyone, and thank you for joining us on the Greenpanel Industries, Q4 and FY 2022 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:

I thank you for joining us to discuss Greenpanel's operating and financial performance for Q4FY2022. We had an excellent quarter, although volumes were impacted due to recurrence of COVID, elections in a few states and price inflation. We have completed the debottlenecking exercise across both the MDF plants, and our current capacity stands at 660,000 cubic meters subject to the value mix remaining constant.

We have also completed the installation of wax emulsion system at both the plants, which will lead to a reduction of approximately 30% in wax consumption.



Net sales were up by 19.75% year-on-year at INR 460.27 crores. Gross margins were up by 670 basis points, year-on-year, at 60.3% due to price hikes taken in quarter 3 and improvement in the value mix. EBITDA margins were up by 499 basis points, at 30.7%, due to price increases, continuous focus on superior product mix and cost optimization. PAT is up by 42.7%, year-on-year, to INR 80.59 crores. Networking capital days at 16 days has shown a reduction of 19 days compared to the year-on-year quarter.

Net debt has reduced by INR 84 crores during the quarter and stands at INR 60 crores as of 31st March 2022. We're targeting to be net debt free for the existing business by June 2022.

Mr. Venkatramani will now run you through the financials in greater detail, post which we will have the Q&A session.

V. Venkatramani:

Good afternoon, everyone. I thank you for joining us to discuss the Q4 and FY '22 financial performance of Greenpanel Industries. In Q4FY22 our top line increased by 19.75% at INR 460.27 crores, MDF sales grew by 29.2% at INR 389.81 crores and contributed 85% of the top line. MDF sales volumes de-grew by 10.7% at 1,24,538 cubic meters due to reasons mentioned by Mr. Mittal. MDF domestic revenues were INR 339.31 crores, while exports contributed INR 50.50 crores.

MDF domestic volumes were 1,01,834 cubic meters, while export volumes were 22,705 cubic meters. Domestic realizations were up by 46% at INR 33,320 per cubic meter and export realizations were up by 51% at INR 22,240 per cubic meter. Blended MDF realizations were up by 44% at INR 31,300 per cubic meter. Uttarakhand MDF unit operated at 85% and AP plant operated at 74% with blended capacity utilization of 78% for both the plants, on enhanced capacity.

Plywood sales de-grew by 14.8% at INR 70.46 crores. Plywood sales volumes were down by 19.3% at 2.46 million square meters, and the unit operated at 81% during the quarter. Plywood sales realizations were up by 4.8% at INR 286 per square meter. In Q4 gross margin increased by 670 basis points year-on-year at 60.3%. Gross profit increased by 34.7% at INR 277.59 crores.

EBITDA margins were up by 499 basis points at 30.7%. EBITDA in value terms grew by 42.9% at INR 141.49 crores. Post tax profits increased by 42.7% at INR 80.59 crores versus INR 56.46 crores in the corresponding quarter of last year.

I will now update you on the performance details for 12 months FY '22. Net sales grew by 58.4% at INR 1,585.73 crores. MDF sales increased by 69.6% at INR 1,329.79 crores, while plywood sales grew by 17.9% at INR 255.94 crores. Gross margins were up by 393 basis points at 57.7%. Gross margin in value terms was up by 70% at INR 914.83 crores.

EBITDA margins were up by 800 basis points at 27.7% compared to 20.7% in FY21. EBITDA in value terms increased by 112.5% at INR 439.39 crores. Post tax profits were up by 249% at INR 240.47 crores. MDF sales volumes were up by 30.1% at 4,95,041 cubic meters, with blended capacity utilizations of the two plants at 87% of enhanced capacity compared to 69% in FY21. Dispatches for plywood increased by 9.7% at 9.3 million square meters with capacity utilization at 81% compared to 71% in the previous year.

Gross debt to equity ratio stands at 0.30 as of 31st March 2022, compared to 0.61 as on 31st March, 2021. Net debt reduced by INR 314 crores during the year to INR 60 crores as on 31st March, 2022.

That concludes my presentation. Please open the floor for the Q&A session. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya:

Thank you for the opportunity and congratulations on great set of numbers. My first question was on gross margins. So we have seen sharp improvement in gross margins on Q-o-Q basis as well. If you can help us understand how sustainable are these gross margins going ahead? Is it fair to extrapolate current quarter's gross margins going ahead?

V. Venkatramani:

It's a difficult question to answer at the present moment with central banks across the globe increasing interest rates and tightening the fund flows. We expect that will have some impact on commodity inflation. So, if raw material prices go down, we will also be reducing selling prices and passing on the benefits to the customers. So at this point of time, I think I would say that the gross margins that we have achieved on an annual basis of around 58%. So those should definitely be maintained in the current year.

Chirag Lodaya: Right. And even for operating margins, is it fair to assume annual margins to sustain or for exit run rate, we can maintain?

V. Venkatramani: Yes, I think the annual margins, especially if we look at MDF, we had EBITDA margin of about 31%, so that should be sustained going forward.

Chirag Lodaya: Right. If you can help me with some quantitative details about the north and south Plant volume, value and margins for Q4 and FY '22 that would be helpful.

V. Venkatramani: Okay. So for Q4, the north plant contributed 41,720 cubic meters versus 45,990 cubic meters in Q4 last year; and the south plant sold 82,818 cubic meters versus 93,500 last year. And overall MDF volumes were 1,24,539 cubic meters versus 1,39,490 cubic meters in Q4 last year. For the full year, north plant volumes were 1,48,642 versus 1,37,215; south plant volumes were 3,46,399 versus 2,43,216. And the total MDF volumes were 4,95,041 versus 3,80,431.

Chirag Lodaya: Value and margins as well sir. For Q4?

V. Venkatramani: Yes, for Q4, the domestic realizations were 33,320 per cubic meter versus 22,757 per cubic meter, and export realizations were 22,240 per cubic meter versus 14,747 last year. And for the full year domestic realizations were at 29,451 versus 22,304 last year, and export realizations were 18,941, versus 14,431 last year.

Chirag Lodaya: Got it. Lastly, how is the overall demand environment shaping up, and what kind of capacity utilization are we targeting? And even have we finished our Capex plans for next year?

V. Venkatramani: No, we are still in discussions with vendors on the Capex plans. So, I think we will probably final that in May or June. And as far as FY '23 is concerned I think we would be targeting a volume growth of about 15% to 18% in the MDF segment and about 6% to 8% in the plywood segment.

Chirag Lodaya: Got it. Very helpful. Thank you.

Moderator: Thank you sir. The next question is from the line of Saumil Mehta from Kotak Mahindra Life Insurance Ltd. Please go ahead.

Saumil Mehta: Yes, thanks for the opportunity. When was the last price hike we had taken in the domestic market in the MDF?

V. Venkatramani: We had taken it in Q3, that is Q3 FY '22. So total price hike during the quarter aggregated to 17%.

Saumil Mehta: Okay. And with respect to interaction with our OEMs and some of the other players, are we seeing some sort of demand destruction at these prices or probably order book is quite full to that extent?

V. Venkatramani: Yes. we have seen some of the OEMs moving to other manufacturers who are probably supplying at lower prices, but anyway, we wanted to reduce our exposure to the OEM segment in the long term. So compared to the first half of the year, where our volumes in the OEM segment were about 30% to 32% of the domestic volumes. Currently our OEM volumes would be about 15% to 16% of the total domestic volumes.

Saumil Mehta: Okay. And when we are targeting to a 15% - 18% volume growth in MDF, for this financial at FY '23, that implies doing the basically Q4 run rate, given that we have capacity utilization levels which is not very optimal. What kind of basically realistic number can we expect for FY '23? I mean given where the demand is, and not much of capacity, can we operate close to 100% utilization if there is demand?

V. Venkatramani: Yes, we don't see any restrictions on the production side, but yes, we are not considering that we will be able to operate at full capacity in FY '23. So, when I said that we are targeting volume growth of 15% to 18% in MDF, so probably our capacity utilization would be somewhere between 85% to 90%.

Saumil Mehta: Okay. And sir my second question is respect to the balance sheet. Now we are one of the few companies where the working capital, number of days have been coming down. In fact, for the year, we also had a working capital release. So, at 16 days, what could be the normalized level or this lower levels of working capital can actually even go through an FY '23 and '24, or we can expect some sort of increase on current levels?

V. Venkatramani: See we could see a small increase or reduction in working capital going forward. But yes, I would expect it to be somewhere between 15 to 20 days, and not surpass that number.

Saumil Mehta: Fine, perfect. And last question, in terms of plywood business was obviously soft in this quarter, there would be a lockdown impact, but from a competitive intensity point of view, are we seeing some sort of pressure points in plywood,

either in terms of raw material availability or pricing over there or margin concerns, any comments over there?

V. Venkatramani: Yes. We have faced margin concerns. So, if you look at FY '22, our plywood margins have definitely come down from what it was last year. So, we are contemplating taking price hikes in the current quarter, which would help us to maintain the operating margins at around 10% to 11%.

Saumil Mehta: Okay. Got it. So basically, FY22 for the year we did about 11% margin in plywood. This kind of margins can be maintained in FY23, FY24 or there is a possibility of that going up?

V. Venkatramani: No, I think at this point of time considering the inflation and raw materials, we are targeting 11% EBITDA margin in the plywood segment.

Saumil Mehta: Perfect. Sure sir. Thank you so much and all the best.

V. Venkatramani: Thank you.

Moderator: Thank you. The next question is from line of Mr. Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Yes, good afternoon. Congratulations for the robust quarter. My question was in terms of the domestic volume growth it was kind of weak in this quarter. Now one of the reason you have attributed is to do with the COVID, what I wanted to check is how do you see the demand scenario, are you seeing a moderation in the demand, or has the pent up demand is already there in the base, and kind of shift what we had seen from ply to MDF or from imports to domestic, has that already been played out or is there more steam left?

V. Venkatramani: Like I mentioned, we are targeting a volume growth of 15% to 18% in MDF. So, we are fairly comfortable with the demand scenario, although, you are right when you mentioned that we have seen a volume de-growth in Q4, but it could be one-off considering all the factors which I had mentioned, COVID, state elections and also the inflationary impact of the 17% price hikes we took in Q3. But even considering all those factors, I think we are comfortable with 15% to 18% volume growth in FY23.

Achal Lohade: Got it, and just to go into a bit of a detail there. We have been exporting, export has been making money for us, given we have enough stock capacity, why are we talking about 85%; why not 95%? And whatever incremental volumes we

have beyond what is required for domestic sales export. So I just wanted to understand your perspective there.

V. Venkatramani: See our internal targets are higher, we would actually like to cross 90%, maybe reach 95% during the current year, but considering the impact of price inflation, which happened during the last year, we are moderating our growth targets. Although there would be efforts to surpass those targets that I had mentioned. But considering that we are in the beginning of the year, so I think we are comfortable with projecting that kind of growth and hopefully we'll achieve a higher capacity utilization in FY23.

Achal Lohade: Got it. And just one more question. Sir, also given the kind of price hike what we have seen in the past one year, can you help us understand what is the landed cost of thick and thin MDFs of imports and what is the current selling price? If you could help us with the number for CBM.

V. Venkatramani: Okay. So, at the moment the landed cost of thick MDF is more or less similar to what our pricing is in the domestic market and on the thin MDF side, we are at a premium of 10% compared to import.

Achal Lohade: We are at premium 10%. And this you would talk about from the south realization sense or the blended realization?

V. Venkatramani: Yes, the south plant realizations, because the north plant does not face any challenges from import. So, import is primarily with respect to the south plant.

Achal Lohade: Got it. That's very helpful sir. I'll come back in the queue for more questions. Thank you.

Moderator: Thank you. The next question is on the line Sneha Talreja from Edelweiss Securities. Please go ahead.

Sneha Talreja: Congratulations for great set of numbers sir. Yes, thanks a lot for the opportunity. I just had two questions from my end. Firstly, you said that you have not yet finalized the plan for your MDF capacity. If I assume you will be already operating at about 90% next year, or in fact higher, which is your internal target. When you see a new capacity commissioning, which is still under planning stage, and do we see volumes getting impacted because of that in FY '24? That's first question.

V. Venkatramani: Okay. So, like I mentioned we are targeting 15% to 18% volume growth in FY '23. So, if we are around that number in FY '23, we'll still have enough capacity

to grow at a similar number in FY '24. So, I don't think we'll face a challenge as far as available capacity is concerned in FY '24. But yes, if our capacity utilization is much higher, maybe if it peaks at around 95% to 98%, then yes, we could face some shortage of capacity in FY '24.

Sneha Talreja: Otherwise, you mean the peak utilization can again be 115 -120, which is where we can do again a 15% to 18% sort of a volume growth in the next year.

V. Venkatramani: Not really. So, when I say our capacity is 6,60,000 cubic meters, so that includes those higher optimal rates, which we can achieve. So, I think 6,60,000 or maybe a few thousand cubic meters higher would be the peak capacity utilization. So given that we have achieved about 4,95,000 cubic meters in FY '22 that still leaves around the 30% to 32% capacity available for the FY '23 and '24.

Sneha Talreja: Understood sir. And what we understand from what you said was your last price hike was in Q3, but after that maybe the timber prices have gone up further. Now is there a point that we have reached, it's such a threshold that now it'll be getting difficult to pass on the raw material cost and maybe margins have peaked out from here and can we see some amount of this?

V. Venkatramani: Yes, we have seen inflation in wood prices, but that has been compensated by reduction in chemical prices. So, at the moment we are fairly comfortable as far as the gross margins are concerned. So, we are not contemplating at any price hikes at this point of time, but yes in future, if raw material prices go up further and that leads to a reduction in gross margins, we'll have to see whether the demand situation is comfortable enough for us to contemplate for the price hike.

Sneha Talreja: Sure sir. That's helpful. One last one, you of course answered about the import pricing or being at almost par level in thick and slightly higher on the thin side for you, but have we started seeing any imports coming back in the market?

V. Venkatramani: Nothing significant, imports have been happening, but considering the fact that imports used to have about a 35% market share prior to COVID and now it's probably around 8% to 10%, so they have fallen substantially over the period.

Sneha Talreja: And they're largely the same compared to the previous quarters?

V. Venkatramani: That's right.

Sneha Talreja: Understood. Thanks a lot, sir. And all the very best.

Moderator: Thank you. The next question is from Abhilasha Satale from Monarch Network. Please go ahead.

Abhilasha Satale: Yes. Thank you for giving me opportunity. Again my question is on the imports. Basically we have seen imports reducing substantially over last two years. So given the current outlook how do we see this, what are the factors which are impacting or which will sustain the current import level? And if anything has to go wrong in that trend then how do you see overall input panning out over a period of time? So do you think that this is a new normal for the Indian MDF industry or do you see a supply chain challenges go down or the pricing challenges more or less stabilize? Then we'll again see the increased level of imports in the Indian market.

V. Venkatramani: Okay. So, if we examine the factors, which have led to substantial fall in imports, we can divide them into three factors. One is, due to price inflation on the raw material side, international MDF prices have gone one up substantially, as seen by the fact that we have seen over 50% increase in export realizations. This has reduced pressures on the domestic markets. Two freight costs, international ocean freight has gone up considerably and keeping in mind that crude prices are at a fairly high level, we don't see ocean freight rates coming down substantially in the near future. And third, Vietnam and Indonesia were major exporters to India in the past. However, now a lot of their MDF is being consumed in the domestic space for furniture exports to U.S. and Europe. They've taken away substantial market share from China, that has also led to a substantial fall in import. So at this point of time, it's very difficult to conclude whether we'll see a substantial change in those factors, which could lead to an increase in import. Now our view is that we would not see any major change in these factors which could lead to a substantial rise in imports.

Abhilasha Satale: Okay, sure. And my second question is again on the Capex. So once you announce the Capex plan in the month of May - June, then what is likely to be the gestation period? And how does Capex will be planned, will it be Greenfield, Brownfield and by when, by what time we are expecting the new plan to commence?

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

Shobhan Mittal: Yes. So, we are in the middle of discussions with the plant suppliers, obviously there has been a few challenges with regards to supplies, especially because of this Russia-Ukraine war that has been ongoing. So, part supply and steel supply

for these plant supplies has also become a challenge. So clearer picture is only expected upon the finalization of the suppliers and basically the primary components of the plant. I think we'll be able to give a much more accurate picture towards the second quarter of the year. But I am hoping that deliveries can start from the point of finalization within a year, and then it's about 12 to 16 months of installation and commissioning time from there. So, I feel we can talk about, let's say a 18 to 24 month timeframe.

Moderator: Thank you. We'll move to the next question from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Yes. So just two questions, both related to Capex. So, one is I just wanted to get a sense on do we have land available in AP itself for expansion? And is there a different thought process in terms of geography for the new Capex that we are planning? That was the first question.

Shobhan Mittal: Yes, the land availability in Andhra Pradesh is not a problem. In fact, we had always foreseen an expansion of another line or two lines in Andhra Pradesh. So that is not a problem and at this point of time, it's a very high likelihood that we would like to expand within Andhra Pradesh, although we are considering options, so at this point of time there's a high likelihood that the expansion will happen in Andhra Pradesh.

Chetan Thacker: So, there is synergistic benefit of expanding lines there, and we will have more operating leverage, availability in that province, that would be a fair understanding?

Shobhan Mittal: Absolutely. Yes.

Chetan Thacker: The second question, again related to this, is what is currently the economic size for this one additional line, which you will think is optimal? And how has the Capex cost changed over the last three years since we installed the initial lines in AP?

Shobhan Mittal: Well, I think the capacity of the line, if that's what you're asking is still in discussions on finding the right optimal solution, but I would say, given the current market situation and especially again, because of this war, steel prices have gone up substantially. We are closely watching and monitoring that. Our decision is to a certain extent linked to the volatility of these steel prices, in Europe especially as well. But I would say that there would be an impact of about

maybe 20% on the investment, on an apples-to-apples basis compared to three years ago.

Chetan Thacker: The Capex per cubic meter, three to four years back was around INR 20,000. That is a fair number because I recall that number. So just wanted to crosscheck, if you mentioned that. In terms of Capex per cubic meter.

Shobhan Mittal: We had invested about INR 790 crores odd for this line that we had set up for 360,000 cubic meters. So, it's a ballpark say 21,000 to 22,000 kind of a number.

Shobhan Mittal: It was around 22,000 per cubic meter.

Chetan Thacker: Yes, and that has gone up by 20 now.

Shobhan Mittal: Yes sure. I mean do keep in mind that that was an entirely Greenfield project as well.

Chetan Thacker: Yes, I understand that.

Moderator: Thank you. The next question is on the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: Hello. Thank you for the opportunity. I just want understand one thing, as we have already operated at 87% in this quarter, and from commentary it looks like the new capacity in MDF is more two years down the line. Don't you feel you would face capacity constraint, or is it like you are waiting and watching because other players are also quite aggressively funding the capacity in MDF and new players are also making their way in MDF. So it would be great if you throw your thought on this.

V. Venkatramani: Okay. So, when we say we achieved the capacity utilization of 78% in quarter 4, the full capacity was not considered because the capacity utilization happened at different points of time during the quarter. For the Uttarakhand plant, the capacity expansion happened in December, but for the Andhra plant, it happened towards the end of January. So, we look at it like I mentioned earlier, our quarterly capacity is around 1,65,000 cubic meters currently and considering that we reached about 4,90,000 cubic meters last year. We still have about 30% growth in volumes available to us for the next couple of years. So that's why I said we can possibly achieve a volume growth of around 15% to 18% in FY '23, as well as FY '24. So at this point of time, unless the demand in the domestic

market catches us by surprise, we don't see that we would be facing any capacity constraints in FY '24.

Keshav Lahoti: Okay. As we can see the kind of margin in the MDF segment have quite increased, maybe 9% increase for you in this year. So maybe normally, we are seeing in the business, once the margin picks up, suddenly something like 8% to 9% in a year, that normally normalizes and falls down, but you found it fairly confident to maintain your 30% to 32% margin in the business. I just want to understand do you think the realization won't spread from here, and the margin would be maintained, because your supply is also increasing at an aggressive pace in the MDF segment.

V. Venkatramani: Okay. So if you look at FY '23, there's possibly only one new capacity coming into existence, which would probably be around 1,30,000 cubic meters. So we are not facing any substantial capacity addition in FY '23. And if you look at our MDF margins, they were about 34.6% in quarter 4. And for the full year, it was around 31%. So I think, yes, maintaining that 34%, 35% margin for the full year would be a challenge because we might not have the same value mix throughout the year, which we achieved in Q4. So at this point of time, I'm comfortable in projecting a 30%, 31% EBITDA margin for the MDF segment in FY '23.

Keshav Lahoti: Okay. Last question from my side, so this 30%, 31% is more you're looking toward FY '23 or would you say this is more of a sustainable margin in the business?

V. Venkatramani: No, I wouldn't say this is a sustainable margin, because we would see new capacities coming up in FY '24. So when new capacities come into existence at almost a similar point of time, those new capacities will not be fully utilized during that period. So it'll probably take us about 18 to 24 months to have a full capacity utilization of the new plan. So I think probably for a period of 18 to 24 months, we could see some dip in the MDF margins during FY '24 and '25, till the domestic demand is strong enough to absorb all those new capacities.

Moderator: The next question is from the line of Kartik Mediratta from Niveshaay. Please go ahead.

Kartik Mediratta: Yes, thanks for the opportunity. So how are you tending the power issue in Andhra Pradesh? Is there any production loss?

V. Venkatramani: No we are agreeable to pay the increased cost for utilization, for power consumption of additional units. Because the increased cost will be much less

than what the losses that we would sustain if there's a substantial loss of production. So we will be going ahead trying to operate at optimum capacity and pay the increased cost per unit rather than have any substantial production loss.

Kartik Mediratta: Okay. So you don't have any production loss in Q1 '23?

V. Venkatramani: No, at the moment the plant is operating normally.

Kartik Mediratta: Okay. My next question is, we have been hearing that many unlisted private players are setting up MDF plants in north, in the range of 100 to 250 CBMs per day. So I just wanted to know how viable these small capacity plants are?

V. Venkatramani: See, there are already, I think, about eight to nine plants in existence. Most of them are in the north of India. Possibly, there's only one in southern India. So yes there are more of an irritation for the organized players in the sense that their invoicing practices are not desirable. But I don't have any information about more such capacities coming into existence in the current year.

Kartik Mediratta: No sir, players I mean in FY '24 and onwards.

V. Venkatramani: Yes, that's it.

Kartik Mediratta: And sir last question. What are the major raw materials for MDF and what is the price trend there?

V. Venkatramani: The major raw materials are wood and chemicals. At the moment, because we have seen substantial increase in chemical prices during the last financial year, earlier the ratio of wood and chemicals used to be between 65% wood and about 35% chemicals, but due to substantial price inflations on the chemical side at the moment they have almost a 50-50 share of their total raw material price.

Kartik Mediratta: And all these are sourced locally or imported?

V. Venkatramani: Yes, all our raw materials are sourced locally, although some of the raw materials from which our raw materials are manufactured, could be imported. Like we use formaldehyde, which again is produced from methanol and methanol is produced from crude, so India does import substantial volumes of crude.

Moderator: Thank you. The next question is from the line of Anika Mittal from Nvest Research. Please go ahead.

- Anika Mittal:** Good afternoon sir. Congratulations for the good set of numbers. Are we doing innovations in the MDF product or planning to enter new products, which can replace the MDF?
- Shobhan Mittal:** There's always some research going on. We've developed a fire-retardant product, which we're going to test out in the market and within the MDF space, there's only limited sort of horizon for doing new products and new launches, because end of the day is a fairly sort of commoditized product. But yes, variants are being worked upon and more importantly, I think innovation and the production side where optimization of cost, et cetera, that is obviously always an ongoing process at our plants.
- V. Venkatramani:** So just to add to that. We have a mix of both industrial and value added products in the MDF segment. At present the value added products contribute about 48% of the total domestic volumes.
- Moderator:** The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.
- Nikhil Agrawal:** Yes. Good evening sir. Thank you for the opportunity. I wanted to know, like since the Indian market is not that developed for MDF at the moment, and there are no such players like Eastern and Northeastern markets. There are no factory or such over here, so will this be your focus going forward. Are you thinking of getting the first mover advantage over here?
- V. Venkatramani:** Okay. Our focus is in all the markets, whether it's north, south, west or east. So we are focusing on all the four geographical regions and even in the Eastern parts our sales have gone up substantially. If you look at the situation around FY '21, the Eastern markets contributed about 3% to 4% of our total sales. Whereas now the East and Northeast contribute about 8% of our total domestic volumes. So we continue to focus on all the four geographical regions and not special focus on any particular region.
- Nikhil Agrawal:** Okay. And sir you said that Vietnam and Indonesia, they're importing their MDF to markets where China used to export before, they're exporting their MDF over there. So in the near future, I know the situation between Indian and China is not good, but do you see Chinese imports, Chinese MDF coming to India going forward?
- V. Venkatramani:** No, China is not really an exporter of MDF, even in the past, volumes from China were very low. So the majority of the imports used to come from Vietnam,

Indonesia and Thailand. So I don't see any possibility of Chinese exports increasing significantly in the Indian market.

Nikhil Agrawal: How is the demand shaping up right now? Like Q4, like we had lost it because of Omicron and because of the price hikes that you have taken. So how is the demand shaping up currently?

V. Venkatramani: Yes, the demand situation is reasonably good considering that April comes after March, where we have the highest turnover in the year, because dealers like to be in the highest slab of annual incentives. Hence, liftings in March are much higher than any other month during the year. But even considering that demand has been reasonably good in the month of April.

Moderator: The next question is from the line of Karan Bhatelia from AMSEC. Please go ahead.

Karan Bhatelia: Yes. While you mentioned of 15% to 18% volume growth in the domestic MDF market, how are we looking at exports from the next two years point of view?

V. Venkatramani: We would like to maintain exports at around the level which we achieved in FY '22. We would be targeting volumes of around 1,20,000 to 1,25,000 in the export markets. But if there is any substantial deterioration in demand in the domestic market, we could possibly increase allocation to exports.

Karan Bhatelia: Right. Also in percentage terms, we've seen export realizations higher. So, could you provide us with the EBITDA margin, small ball park number, compared to two years back in the exports market?

V. Venkatramani: Yes. I would say in export EBITDA margins are almost doubled. So earlier they used to be around 8% to 10% and currently it's around 16%.

Moderator: Thank you. The next question is from the line of Ishrat Khatri from Omkara Capital. Please go ahead.

Ishrat Khatri: I had a question relating to the power issue that we are facing. So I think one of the participants asked the question and you said that we are paying the increased cost of the additional units. So I believe our cost was about INR 6.5 per unit. So how much additional are we paying for the incremental units that we'll be taking?

V. Venkatramani: Yes, the cost will go up by approximately INR 1 per unit.

Ishrat Khatri: Okay. And how will it affect our power cost as a percentage of sales? I believe that's on an average about 10%. So going ahead will it be a significant impact or the additional units that we'll be taking would not really create a lot of impact?

V. Venkatramani: See it would depend on how long the AP government puts the restrictions into place. At the moment, the restrictions were up to 30th April, and till date they have not announced to whether they'll be extending those restrictions into the month of May or any future period. So I'll wait for the announcement.

Shobhan Mittal: Sorry. No, Venkat ji, I think they have already extended it till the 15th of this month.

V. Venkatramani: Okay.

Shobhan Mittal: And basically, post that they will be taking a review of that and letting us know, but just to give you sort of some more light onto this, the companies are allowed to draw up to 50% of their sanctioned power. So, under normal operations itself, we were only utilizing about 75% to 80% of our sanctioned load. So at the moment with the 50% drawing permission that we have, we can fulfill about 70% to 75% of our requirement at the normal prices, purely because we had a higher sanctioned load from the beginning. So it's only on that 20%, 25% additional requirement where we will be having to pay this premium. So it's not on the 50% entirely as the rule says because we had an initial higher sanction load.

Ishrat Khatri: Okay. I think that's great. Also on the capacity, so currently we have about 5,63,000 cubic meters. And you mentioned that we can reach about 6,60,000 kind of utilization at the peak. So is it on the existing capacity or there's some more room for debottlenecking at any of our plants?

V. Venkatramani: No, it's on the existing plant.

Shobhan Mittal: No, this is post; it's based on the debottlenecking that has already come online. The steam injection system that we have done.

V. Venkatramani: Yes, we have considered that capacity at 5,63,000 for FY '22, because the capacity increase happened at different points of time during the year. So for Uttarakhand plant, it happened towards the end of December. So we have considered the additional capacity of three months and for Andhra it happened towards the end of January. So we have considered only two months of additional capacity, but the capacity available to us at this point of time is 6,60,000 cubic meter.

Moderator: Thank you. We'll have to move to the next question from the line of Devang Patel from NAFA AMC. Please go ahead.

Devang Patel: Hi. So could you give us a sense of how the domestic MDF consumption has grown both in Q4 and FY '22? Is it in line with the 15% to 20% volume CAGR that we've been expecting in the past?

V. Venkatramani: Yes. As far as my knowledge goes, although numbers for other MDF companies have not come out as yet, but based on the feedback we have received from the sales team, we feel that other branded players also have grown at the same percentages.

Devang Patel: So for the full year, the volumes would've grown, but the whole industry would've de-grown in Q4. Is that, what do you think?

V. Venkatramani: I would not like to comment on whether the whole industry has de-grown during Q4 because numbers for other companies are not out yet. So we'll probably be able to answer that question in the Q1 call.

Devang Patel: Okay. Secondly, you mentioned earlier our price is in a 0% to 10% premium to landed prices. Has this premium changed materially and what was it pre COVID?

V. Venkatramani: Okay. So I mentioned that we are at a premium of 10% only on the thin MDF segment. On the thick side there's price parity between domestic and import. And if you look at the past, on the thick MDF segment, we used to have a premium of about 8% to 10% and on the thin MDF segment, the premium used to be in the range of 25% to 30%.

Moderator: Thank you. We'll move to the next question from the line of Jignesh Kamani from Goldfish Capital Advisors Pvt. Ltd. Please go ahead.

Jignesh Kamani: Hi, Venkat congratulations on good set of numbers. This is our is MDF margin, so in fourth quarter, we recorded a 34.6%, despite the environment where demand was infected in January because of the COVID while plant was shut for a few days because of modernization. Both issues are behind now and as you say, and gross margin, as you say is intact you can say, so if you take about at least FY '23 where you are at 20% higher capacity, with limited increase in overhead, gross margin is intact. So why you are still conservative on the margin at least in first half I will see that 35% -- EBITDA imagine is possible.

- V. Venkatramani:** Yes, Jignesh ji, I am conservative, because we have still not come out of inflation. So there's no guarantee that raw material prices will not increase in future. And if there is inflation on the raw material side, we might not be able to pass on the entire raw material increases to the market. So at this point of time I'd like to be slightly conservative and not say that we could achieve those Q4 margins during the whole of FY '23. So I think probably we'll get a better view after the first six months of the current year.
- Jignesh Kamani:** So let me put that, as of now, from 4Q level, there's no negative concern which can impact margin as of now, it's more that in future, there might be input cost pressure or demand, which might impact the margin in future.
- V. Venkatramani:** That's correct.
- Moderator:** Thank you. The next question is from the line of the Dhiral Shah from Phillip Capital. Please go ahead.
- Dhiral Shah:** Yes, good evening sir. Thanks for the opportunity. My question is we have seen very strong price rise in MDF segment, so do you foresee any interplay between MDF to plywood? We see very strong price rise in the MDF segment, so do you foresee any interplay between MDF to plywood?
- V. Venkatramani:** Not really, because the unorganized plywood segment against which we primarily compete with our MDF product, is also facing challenges because there's been a lot of inflation on the wood side. And most of the unorganized plywood segment use poplar as the base raw for plywood, whereas we use eucalyptus where price inflation has not been so strong. So at this moment I think, yes, we would be able to expand the market for MDF further by penetrating the cheap plywood segment.
- Dhiral Shah:** And any particular reason for such a sharp fall in the plywood volume, almost 19% to 20%.
- V. Venkatramani:** If you look at Q4, I think apart from normal factors like I mentioned the outbreak, the reemergence of COVID during the month of January, state elections and inflation did have some impact on both the product segments. So I think it was a one quarter impact, normally demand is good. So we are not facing any significant challenges on the plywood side, but yes, as the plywood industry is very large compared to MDF, and the organised sector has only about 20% to 25% of the total share. So the entire plywood industry normally grows at between

2% to 4% per annum. So we are projecting growth of about 6% to 8% in volume terms for FY '23.

Moderator: Thank you. We'll move to the next question from the line of Rishab Bothra from Anand Rathi. Please go ahead.

Rishab Bothra: What kind of revenue generation we have in MDF institutional category. I just wanted to check what kind of revenue generation do we have from institutional category and the dealer category in MDF business?

V. Venkatramani: If we look at FY '22, I think during the first half of the year, the contribution from the institutional segment was around 30% to 32%, but with effect from 1st December, we reduced discounted price for the OEM segment. So at present there's no additional discount for the OEM segment, they're purchasing at the same rate as the retail segment. So our OEM institutional business segment has reduced during the fourth quarter, and as compared to earlier quarters the share of the OEM segment is currently around 15% to 16% in comparison to about 30% to 32% in the first half of the year.

Rishab Bothra: What my understanding suggest is large part of the furniture in India is plywood and people prefer making it at home, but in case of MDF, people moved or are ready to move in furniture, which constitute a large portion and new age companies like Pepperfry, Urban Ladder and Ikea. All these are large bags for MDF. So where are we placed in terms of catering to these organized players?

V. Venkatramani: See at the moment most of these players are importing the bulk of the furniture from outside India. If you look at Ikea, they're not doing any manufacturing operations in India currently. So they are procuring it from their own units in other countries or a small amount of furniture is being procured from local vendors. So while it's possible that some of the vendors could be procuring from our dealers, because if they're not procuring large numbers, they will not be procuring directly from their company. So it's possible that they could be procuring from our dealer network, but we don't have any data available to us from the dealer networks, which would enable us to trace out how much of our volumes are going to the readymade furniture providers in India.

Rishab Bothra: Sir lastly, this market is highly unorganized. So we have not seen or come across any M&A, merger and acquisition in this space. What is the likelihood of M&As activities possible in this area? And since most of the players are moving into offering all products, I mean, the organized players, I think the competition

intensity is about to increase going forward. So how are we going to place ourselves in a unique position, so that customer comes to us rather than other players?

V. Venkatramani: Yes, we will be increasing the branding spend that we had allocated to this segment earlier on. So from FY '23, we'll be spending more on branding, but it's unlikely to have any impact in the short term, because building up a product brand will take time. So it's a medium to long-term activity. We'll be starting the activity in the current year, but it's likely to give us benefits probably after a period of three years.

Rishab Bothra: And in terms of the M&A activity?

V. Venkatramani: Not much because there are four organized players and about eight to nine unorganized players and most of the unorganized players are based on secondhand Chinese plants for which there would not be much interest from the organized players. So we don't see much of M&A activity happening in this segment.

Moderator: Thank you. The next question is from the line of Manoj Shroff. from Kivah Advisors. Please go ahead. Manoj.

Manoj S.: Hi sir. Thanks for this. I had two questions. One was the commercial segment, if I'm not wrong, I heard you say once it's around 60% of the MDF consumption. So then if we have more commercial opening up right now, after the lockdowns et cetera. So can we assume we can have higher MDF demand in the next couple of years? That was one question. And second was, and since last couple of years, even last year we've been seeing our value add mix our focus is to increase our value add mix. So when you said value add mix may not be as strong as Q4, if you can share some thoughts why you are saying that?

V. Venkatramani: Yes. I think, the commercial segment will continue to grow. And if you look at domestic MDF volumes, we have seen a fairly strong growth over the years. We entered this industry in 2010, and at that time, the entire market was about 150,000 cubic meters and today in terms of capacities, it's around 2.3 million cubic meters in terms of market possibly around 1.8 million cubic meters. So yes growth has been fairly strong at the past years, and we continue to expect that it'll continue to blow at a CAGR of around 15% for the next three to five years. So yes, the growth of the commercial segment as the real estate comes out of a slowdown, for the past three to four years, could accelerate acceptance of MDF.

And the second part of your question on value added products; no, it's very difficult to estimate because a couple years back when value added was around 35% of the domestic volumes, I thought we were possibly close to the peak, but now that has gone to around 48% of the domestic volumes. So it's very difficult to estimate what will be the peaks that we can achieve in terms of growing the value added segment. But yes, we'll continue to focus on that, keep our minds open and try to get as much share of the value added segment as maybe possible.

Moderator: Thank you very much. We'll move to the next question from the line of Rajesh Ravi from HDFC Securities. Please. Go ahead.

Rajesh Ravi: Okay. My first question pertains to the MDF, the capacity in the presentation which you have mentioned, the industry capacity to grow by more than 100% in next five years, you're currently 25% to 30% of the total sold capacity. How are you positioned to maintain your market share or even grow from here on. First and second related to the same one, in this, given that what we understand is a payback period for an MDF today, stands to be close to three years or even less. So what sort of competition intensity are you factoring in, over the next three to five years?

V. Venkatramani: At this point of time since we have not finalized our capacity expansion plan, no, it'll not be right for me to give a number of our market share will grow or remain constant over the next three to five years. So I'll wait for our capacity expansion plans to get finalized before I comment on that. And could you please repeat the second part?

Rajesh Ravi: Second, if we look at EBITDA margin, fourth quarter of FY '22 itself, on a per CBM basis, Q4 you achieved almost INR 11,000 per CBM. For a CapEx cost of INR 25,000 per CBM and working capital is relatively thin. So payback period is very attractive. So is this -- or will this lead to more players from plywood or even from other business segment entering aggressively into this market? What is your understanding?

V. Venkatramani: Okay. Normally in any industry I would say, yes, that would lead to expansion of margins normally lead to high competition till margins get stabilized to a normalized level. But this is a wood panel industry where licensing plays a very important role. So for any greenfield or brownfield expansion you require a license and obtaining a license is a time consuming exercise. So, I won't say that

we would see those numbers multiplying which could have a substantial impact on the margins.

Rajesh Ravi: Okay. So what would this mean is that the most of the expansion that you're forecasting would be from the existing top four, as well as the next three to four players, is that understanding correct?

V. Venkatramani: Not really, what I'm saying is that it'll be difficult for a lot of new players to procure fresh licenses. Whereas for players who are already in the industry have a historical background and performance behind them, it'll be easier to procure fresh license.

Rajesh Ravi: Okay sir. My last question is on the performance Q4, you mentioned that your institutional sales came down to 15% in the revenue mix of MDF versus 33% odd in the first half. So would that also be driving your high margins in Q4 whereby even volumes would be impacted, as in you did not lose out some of the less attractive institutional volumes you let go or rather.

V. Venkatramani: Yes, it's one of the factors which contributed to the higher margins and the fact that we did not see any significant raw material price inflation happening in Q4, although some of the benefits of the price increase that we took in quarter 3, was reflected in this quarter contributed to the higher EBITDA margins.

Moderator: Thank you. We will be taking one last question from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Yes. Thank you for the opportunity. Sir what would be the tax rate for next year? And secondly, if you can help us understand this networking capital implemented in this year, is it a sustainable number or we will again go back to 30, 35 days?

V. Venkatramani: No, I don't think we would be going back to 30 - 35 days, at any time in the future. We have always been focused on working capital, especially in the MDF segment, right from 2010 when we entered the industry. Increase in working capital days happened after the Andhra plant came into existence, when we had to increase inventory because we had to manufacture all the sizes and thickness irrespective of whether they were fast moving or slow moving to test whether the entire plant was operating satisfactorily. So that contributed to higher inventories. Now those inventory levels have come down to normal. So I think the 15 to 20 days would be the normal working capital days for the future.

Chirag Lodaya: Right. And the tax rate?

V. Venkatramani: Tax rate, I think would be approximately around 32% for FY '23 and beyond that when our existing tax incentives are fully consumed, we would be moving into the 25% tax rate from FY '24.

Chirag Lodaya: 32% you said, right?

V. Venkatramani: Yes. Approximately 32%.

Moderator: Thank you very much. I now hand the conference over to management for closing comments.

Shobhan Mittal: Thank you everyone for joining this call and we look forward to speaking to all of you again post first quarter. If anyone has any further questions please do feel free to get in touch with us. Thank you and please be safe.

V. Venkatramani: Thank you everyone for your participation and in case you have any additional questions you can get in touch with me either on phone or email.

Moderator: Thank you very much. On behalf of Greenpanel Industries Limited that concludes this conference. Thank you for joining us.