



Greenpanel Industries Limited

Q1 FY25 Earnings Conference Call

July 30, 2024

Rishab Barar

Good day everyone and thank you for joining us on Greenpanel Industries Limited's Q1 FY25 Conference Call. We have with us today Mr. Shobhan Mittal - the Managing Director, Mr. V. Venkatramani - the 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. Over to you, sir.

Shobhan Mittal

Thank you. Good afternoon everyone and thank you for joining us to discuss Greenpanel's Financial Performance for Q1 for the Financial Year 2025.

MDF domestic volume had increased by 10.2% year-on-year for the quarter, export volumes contracted by 21% due to logistics issues. MDF EBITDA margins at 12.1% were impacted by steep increase in wood prices, 5.8% sequentially and 30.9% year-on-year, lower domestic volumes on a sequential basis. Plywood volumes were low both sequentially and year-on-year and operating margins at negative 2.2% were impacted due to the same.

Post-tax profits for the quarter were lower by 58% at Rs. 15.71 crore as compared to Rs. 37.26 crore in Q1 FY24. Net working capital at 36 days has shown a sequential increase of 8 days due to increase in wood inventory in preparation for the monsoon season. Net debt stood at Rs. 103 crore as on 30th June, 2024. However, it stands at negative Rs. 111 crore, excluding debt for expansion project.

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

V. Venkatramani

Good afternoon everyone. I thank you for joining us to discuss the Q1 Financial Performance of Greenpanel.

Net sales during Q1FY25 were Rs. 364.15 crore compared to Rs. 385.16 crore during the year-on-year period. MDF sales fell by 2% at Rs. 331.78 crore and contributed 91% of the revenue. MDF domestic volumes stood at 97,400 cubic meters. Export volumes were 21,671 cubic meters and overall volumes for Q1FY25 were 1,19,071 cubic meters.

MDF domestic revenues were Rs. 288.33 crore while exports contributed Rs. 43.45 crore. Domestic realizations were lower by 10.01% at Rs. 29,603 per cubic meter while export realizations were higher by 11.7% at Rs. 20,051 per cubic meter. Blended MDF realizations were lower by 5.1% at Rs. 27,864 per cubic meter.

Uttarakhand MDF plant operated at 76% and AP plant operated at 74% with blended capacity utilization at 75% for the quarter. Plywood sales had degrowth of 28% at Rs. 32.37 crore.

Plywood sales volumes were lower by 22.8% at 1.22 million square meters and the unit operated at 52% during the quarter. Plywood sales realizations were lower by 6.7% at Rs. 266 per square meter since we have stopped sales of decorative veneers. In Q1FY25, gross margins at 51% fell by 710 basis points year-on-year due to reduction in selling prices and increase in wood prices.

EBITDA margins were down by 780 basis points at 10.9%. PAT was lower by 58% at Rs. 15.71 crore. Growth debt to equity ratio now stands at 0.21 as on 30th June 2024, compared to 0.13 as on 30th June 2023. Net debt as on 30th June stood at Rs. 103 crore, including debt of Rs. 214 crore for the expansion project.

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

Moderator

Thank you. We will now begin the question and answer session. The first question comes from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti

We have seen MDF margin is now pretty low at 12%. So, what is the sense, when should we expect any types of pricing increase by the industry and timber prices, which continue to shot up? Earlier call you have said it might possibly cool off from June or July onwards, so what is the sense on the cost side? And lastly on the import as we are seeing freight rates have sort of already doubled in last few months, so is it leading to lower import in the country and how is the import and domestic pricing gap now?

Shobhan Mittal

On the timber cost front, I think we have maintained previously that it is still some time, it was our next year when we will see that the prices starting to cool off when the new plantation material will start coming in circulation. However, we do see that there is some stability on the timber prices. As a company what we have also done is we have ventured into different species of timber, trying to source other cheaper species of timber for which we are now trying to keep the timber prices in check. However, it is very hard to estimate that are we seeing a real reduction in timber prices. As of now, it is hard to say that. But with mixing of different species, etc., we are able to control our internal timber prices. On the pricing side, we foresee that we don't see any major further reduction in the market pricing coming in because majority of the new capacities have already come in and some of the smaller new capacities have already established themselves with a fair amount of volume in the market and a decent market share. So, we don't foresee any major challenge coming on that side as well. Imports, yes, freight prices continue to remain quite inflated and we are not seeing a major increase in imports coming. In fact, there has been a reduction only. So, we don't see imports being a major threat in the near future because of the freight remaining inflated at this point of time. So, that is the current situation from the cost and pricing side.

Keshav Lahoti

In case there is no price increase or 12% margin can be possible, at best you can close this year looks like a 15% margin, so what is the take on that? Because margin is pretty low, for capital intensive business like MDF.

V. Venkatramani

Remember, we had guided in the last conference call after the post-quarter results that we are expecting MDF margins to be around what we achieved in Q4 last year, which was, I think, around 16.4%. So, that would be our target for the current year.

Keshav Lahoti

One last question from my side, you maintained your 15% MDF volume growth guidance for FY25?

V. Venkatramani

Correct.

Moderator

Thank you. We have the next question from the line of Sneha Talreja from Nuvama Institutional Equities. Please go ahead.

Sneha Talreja

Just a couple of quick questions from my end. Of course, you have given all the reasoning right from domestic competition to timber prices going up. I think on the last question you did mention a lot, when you see the domestic competition easing, I think the last was done by Greenply and then came CenturyPly, do you see now the price pressure at least on the competition side has gone away? The question why I am asking is even if let us say timber

prices start to reduce, if the competition remains fierce, can there be passing on which can happen or you think that will not happen?

Shobhan Mittal Century a new plant has recently started and of course I am quite sure that they are looking to gain some market share, especially in the South zone where they were not present operating out of the North plant, not present in a very substantial way. So, I wouldn't say that the domestic competition has gone away. However, there is some relief on account of imports not coming in. I am also quite hopeful and sure that the domestic industry has now realized where they stand in terms of margins, and I think we are almost hitting a bottom limit as to how much price cutting can happen. With the given current timber prices being on the increasing trend, even at current levels, margins have already become quite straight. A lot of the new companies have taken on substantial debt to fund their expansion projects. So, I don't foresee any major reduction in market pricing per se. I think now the only challenge that remains are increasing timber pricing and I think collectively as an industry, there are chances that we may be able to pass it on in the coming few months. Primarily, if all the organized players see it that way and the imports remain muted, then there would be a possibility of passing on this cost onto the market as well.

Sneha Talreja Is it safe to assume in Q2FY25, we will see some price increase happening?

V. Venkatramani I don't think we can make that assumption now. It is still a very competitive market and there is a big gap between demand and supply. So, I will wait for some time before we see whether we can implement price increase in Q2FY25.

Sneha Talreja Sir, lastly, when you mentioned about demand supply, could you give us a number of supply additions happening in the industry, the major ones?

V. Venkatramani If we look at it, current capacity would be around 3.5 million cubic meters and including our own capacity of 230,000 cubic meters, we expect 600,000 cubic meters to be added during the current year. We should take the overall capacity to about 4 million cubic meters whereas current demand is approximately 2.5 to 2.6 million cubic meters.

Sneha Talreja And what would be the quantum of import?

V. Venkatramani If you look at the average for last year, it was around 35,000 cubic meters. So, if you look at Q1FY25, it has come down by approximately 50%.

Moderator Thank you. The next question is from the line of Praveen Sahay from Prabhudas Lilladher Pvt. Ltd. Please go ahead.

Praveen Sahay Can you give the North and the South timber pricing for the quarter?

V. Venkatramani It was Rs. 6.75 for the North plant and Rs. 5.50 for the South plant and blended was approximately Rs. 6.

Praveen Sahay And so if I look at the margin profile of 12% and also sequentially if I look at your realization and especially in the domestic market, the realization for Q-o-Q has actually gone up, so 16.5% of margin to 12% is majorly because of timber pricing?

V. Venkatramani Well, that is correct. It is to a large extent the timber price. It is also sequentially if you look at it domestic volumes have come down from approximately 116,000 cubic meters in Q4FY24 to 97,000 cubic meters in Q1FY25. So, the fall in volume has definitely contributed to the lower operating margin and there has also been, if you look at it, the domestic export mix has changed compared to what it was in Q4FY24. Q4FY24, I think it was about 92% domestic and 8% exports whereas, it is about, 82% domestic and 18% exports in the current quarter.

Praveen Sahay My next question is related to the OEM. How much is the volume and value contribution for a quarter?

V. Venkatramani The OEM contribution was 25% of the domestic volumes.

Praveen Sahay And in value terms?

V. Venkatramani I don't have the figure right now. You can give me a call later.

Moderator Thank you. The next question is from the line of Udit Gajiwala from YES Securities Ltd. Please go ahead.

Udit Gajiwala Where you mentioned that for FY25, you are targeting around 16%-16.5% margin, so sir what would be those reasons from 13% going back to 16% where you are not seeing timber prices coming down?

V. Venkatramani It comes primarily from the volume growth we are projecting for this year. We are projecting a volume growth of 15% in the MDF segment. That operational efficiency should give us the higher margins.

Udit Gajiwala But to achieve 15%, your ask rates for coming 9 months is close to 19% to 20% growth. And I believe imports could be lower in Q1FY25 also because there was some confusion on BIS, so the orders were delayed, and the container issues were there. But if imports start to come back, then 9 months, 19%-20% growth looks a bit challenging given the current scenario, but any light over there?

V. Venkatramani I think imports will continue to face challenges just as we are facing challenges on the export side. It is not only a steep increase in ocean freight rates, there is also a non-availability of containers and ships and ship schedules are also getting deferred to a significant extent. So, I don't think imports will go up significantly at least for the next 2 quarters.

Udit Gajiwala And lastly, the CAPEX that the new plant is expected to come into Q3FY25, that is as per schedule and would it start to contribute from Q4FY25 onwards or there is some delay over there?

V. Venkatramani That is correct. It will start production in Q3FY25.

Moderator Thank you. The next question is from the line of Vinamra Hirawat from JM Financial. Please go ahead.

Vinamra Hirawat My first question was on wood prices. I just want to know, what is the expected quantum of reduction in wood prices in FY26 when the new crops start coming in and the estimated impact it will have on your cost of goods sold?

Shobhan Mittal It is impossible to gauge that at this point of time. Being a natural product and being so fragmented in the hands of so many farmers, we would not be able to gauge what kind of supply would be coming in and what would be the expected demand at that point of time, which would result in the reduction. So, it is quite impossible to gauge that at this point of time.

Vinamra Hirawat And I just wanted to know if this quarter had any election impact on your sales volumes.

V. Venkatramani Yes, I think to some extent we also had the election impact just as April is also a slow starter because dealers increased volumes in March to avail the highest slab of incentive, so all those factors definitely contributed to low volumes in Q1FY25, and we are confident that we will start seeing the pickup from the current quarter.

Moderator Thank you. The next question is from the line of Nikhil Agrawal from Kotak AMC. Please go ahead.

Nikhil Agrawal My question was related to the discounts and schemes. I believe it was in place till the end of June, but still our volumes fell during the quarter. And so have you rolled back the schemes or are they still in place?

Shobhan Mittal No the schemes are very much in place because you see I think our schemes were a reaction to undercutting by other companies. So, it was an answer to the schemes that were launched by other companies. So, at this point of time, the schemes continue to be in place.

Nikhil Agrawal Do we see Q2FY25 volumes going down further because it is normally a kind of weak quarter, so what has been the performance for July, if you can just help on that?

V. Venkatramani I think we will definitely see a volume improvement in Q2FY25 because monsoons do not significantly impact demand since this is an internal product, primarily used for manufacturing furniture. So, monsoon does not create any significant disturbances. I think volumes will be significantly better in Q2FY25 as compared to Q1FY25.

Nikhil Agrawal And what about the margin front? 12%, have the margins bottomed out, or do we expect any further erosion?

V. Venkatramani I think the margins have bottomed out. Definitely, since we are seeing volume improvement in Quarter 2, I think margins will definitely be better in Quarter 2 as compared to Quarter 1.

Nikhil Agrawal And what about the Plywood segment? Like, when do we see performance improvement on that?

Shobhan Mittal So, we are seeing volume improvement already in the Plywood segment. We have taken some quite strong decisions in the Plywood segment. We have combined and merged the Plywood sales team. So, what we have done is we have opened up the number of people selling plywood within the company to a much larger number base, and we have also started accessing our entire MDF network to try to put our plywood product into that segment. So, we are already seeing improvement in terms of volumes. There has been cost optimization as well. We are also hopeful that in the next month, month and a half, we will see some price improvement in plywood as well. We have already sent out a notice to the market for the same. And we are hopeful that within a month's time that will get implemented. So, with these different measures and the more sort of increased intensity of selling plywood within the company, I see volumes to improve and also some relief on the margin front with the improved pricing as well.

Moderator Thank you. The next question comes from the line of Aditya Mehta from Antique Stock Broking. Please go ahead.

Aditya Mehta I just wanted to ask why has the annual capacity for plywood declined from 10.5 million square meters in Q1 FY24 to 9 million square meters in Q1 FY25?

V. Venkatramani That is correct. As we had mentioned earlier, we have shut down the decorative veneers segment. So, that is why you see a reduction in capacity. It is the part of the plywood business. As we had mentioned in the earlier call also, we have closed down the decorative veneers business, so that is why you see a reduction in the overall plywood capacity.

Moderator Thank you. The next question is from the line of Ritesh Shah from Investec Capital market. Please go ahead.

Ritesh Shah First is the clarification you indicated that after 600,000 of capacity addition at industry level, the total capacity we are looking at 4 million CBM is that number right?

V. Venkatramani That is right.

Ritesh Shah And so the corresponding demand would be around 2.6 to 2.8, did you mention that? Did I hear it right?

V. Venkatramani Yes, if you look at the last financial year, I estimate it is between 2.5 and 2.6.

Ritesh Shah And sir, imports, you indicated average was 35,000 and for the quarter, I could not pick up the number, sir?

V. Venkatramani Quarter, I said it was approximately 50% of the last year's average of 35,000, so somewhere between 17,000 to 18,000 cubic meters per month.

Ritesh Shah My second question is on import parity pricing. Historically, you used to give us number on what the FOB price is, what the freight price is, and effectively we could calculate the landed price. You did indicate around container freight charges. Is it possible if you could please quantify that?

Shobhan Mittal As of now, what we are seeing, there is not too many imports coming in, so it is not very clear. What we know is that from Southeast Asian countries, they are trying to maintain an FOB price of \$190 to \$195. And on the freight side, I think today we are talking at least a number of \$30 to \$35 per cubic meter to bring it into India. So, that would result in a price of \$225 to \$230 CNF.

Ritesh Shah And, sir would that be import duty of around 10%? Is it something which is applicable right now?

Shobhan Mittal Most of the Southeast Asian countries fall under the free trade agreement. So, there is no import duty on that.

Ritesh Shah So, sir, if we look at this number, factoring \$35 of trade, \$190, what you indicated on FOB basis, the landed price will be somewhere around Rs. 8,000 - Rs. 19,000, how should we look at this versus our reported realization? I understand we do a lot of value-added products, but is it possible to get some comfort that the local pricing would not reduce only looking at import parity match?

Shobhan Mittal What we need to compare firstly is the industrial grade product against the import product which is the segment that the imports compete in, number one. And number two, what also needs to be factored in is that this price is landed at the port. Even at the port location, there are various clearing charges and local transportation charges and then overheads of the importer involved, I think which adds around Rs. 2,500 per cubic meter to the cost, to bring it to the importers. So, the moment they further transport this to the users and the consumers, then the cost gets added up. So, we don't foresee that in industrial grade because of imports, at these price levels, any pricing challenge. That is why you also see at this point of time that majority of the OEMs that we are catering to who were completely dependent on imports in the earlier few months have now moved to the domestic producers purely because imports is not really viable and they are also happy to pay a small premium to the domestic producers because there is a lot of, they have low working capital requirement dealing with domestic producers, LC limits are not required, foreign exchange volatility goes out of the picture. So, we don't see that to be a challenge with the current price levels.

Ritesh Shah Just a follow up, the implied realization based on our math, it comes to around Rs. 29,600 per CBM. If one had to bifurcate this into two parts, one is the basic grade and the value-added, would that be possible a broad number would also help just again to comment on pricing?

V. Venkatramani Sure, so our domestic blended realization is Rs. 29,603. If you look at the basic products, which is the industrial and the commercial grade products, the average realization comes to Rs. 22,695 and those for the value-added segment comes to Rs. 37,482.

Ritesh Shah And just last question, you indicated there is another 600K of capacity which is expected. If you look at the current margin profile, it would be difficult to cover up for the cost of capital for most of the players. So, when you speak to the industry participants, what is the thought process? Is it like to look at market share push volumes, or is there some hope that there would be sanity in the marketplace, and there will be some resilience on pricing that one can expect?

Shobhan Mittal I think everyone is hopeful that there will be some relief on the timber cost front. Everyone is quite upbeat about the fact that imports have been curtailed, but at the same time, cut-throat competition continues in the market. I am just hopeful that people realize that it can't get any worse than that and start working towards margin improvement, whether it is on the pricing side or also, for example, additional efforts on the raw material side, whether it is reducing pricing or increasing plantation activities.

- Ritesh Shah** If you look at timber prices locally last 15 years - 20 years in India, have there been any tenures when the timber prices have actually reduced? And if yes, what are the reasons leading to that?
- Shobhan Mittal** No, you see in timber, we always go through these cycles because demand goes up, prices start going up and plantations start happening. And then, when plantations do become available, demand is sort of similar, then the prices will go down. We have seen this, there is always a 5-6 year cycle when this always happens. So, it is quite common, and expect it. Of course, this time it has been a bit more inflated because demand from the paper mills and the expansion in the MDF industry has been quite substantial. And for this grade of timber, the demand has drastically gone up and plantation is taking time to catch up. But these cycles have been in the industry, it always happens. It is quite common for this to happen.
- Moderator** Thank you. The next question is from the line of Rishab Bothra from Anand Rathi Institutional Equities. Please go ahead.
- Rishab Bothra** Firstly, just wanted to understand what things can we do in order to reach back to our profit levels? In market scenario, we all know, understand how things have been, and I am sure you would be doing the right steps or taking the right steps to move in a more profitable manner, but what according to you are key factors which are restricting the increase in productivity?
- Shobhan Mittal** So, you see, as I mentioned earlier, certain things are beyond our control. For example, timber pricing, the best we can do at this point of time is to try to mix different grades of species and different species and different grades of material to reduce our average timber consumption cost. We have taken a strong drive internally within the company to cut unnecessary costs during this difficult period. Like I said, we merged the plywood and MDF teams, which have resulted in a fair amount of savings on the sales operation side. We have also, for example, decided to centralize certain sales and commercial functions, which were earlier divided in the respective branches to make it more efficient and reduce costs as well. So, on the cost-cutting side, there has been a strong drive within the company to try to improve margins. Also, one thing that the company is focusing on is the increase in the value-added product mix, because that is somewhere where we see that there is good opportunity for profitability to go up. There is no threat from the unorganized segment or the imports in that particular segment. So, there is a strong focus on increasing the value-added segment for the company. So, there are cost cutting measures in place. Of course, there is a drive to improve the product mix and hopefully in the next coming few months we can also see some opportunities to pass on cost increases to the market with price increases. So, that would also result in an improvement in the margins of the company and profitability.
- Rishab Bothra** So, why I was asking this question is, if we recollect 2021-22, the run rate of revenue was around Rs. 470 - Rs. 450 crore which has come down to around Rs. 397, I am sure realization would have improved, volumes would have improved vice versa. There could be a time one would be up and one would be down. But our margin contribution has come off sharply, 28% to 29% margin have come off to 13%. And this has been quite for a while. So, since everything looks good on the demand front, input cost is a challenge, which has been there for a while and still we don't know where we will be landing up in Q2FY25 or Q3FY25. So, does diversification help to an extent moving from MDF to other business segments because I guess non-compete clause is over?
- Shobhan Mittal** The non-compete only applies for us to the plywood segment at this point of time, but like I said, even that is no longer in place. But I think we are still very upbeat about the MDF segment. The demand side, I would say the challenge is of oversupply, not of the market demand or market growth. The reason why this problem has been created over the last year is because surplus supply has come in, which I am quite sure given the current conditions, people are not going to willingly invest into MDF plants or large MDF plants going forward, because everyone knows the current situation. So, we see that this situation is definitely going to improve. As a company, we are very cautious about the debt in our books. We have already undertaken an expansion project. Our current capacities are underutilized at this point of time. So, the focus of the company at this point of time is to optimize existing capacity, bring the new project online and bring it up to capacity and streamline the plywood business to bring it to full capacity as well. So, with these things on our hand at this point of time, diversification into another product line is definitely not on our mind. There is already a lot on our hands to do and I think for the next two financial years, we are quite sure that this will keep us occupied.

Rishab Bothra And you mentioned oversupply, so is it imports, are we pressurizing the government or are we lobbying with the government to have certain anti-dumping duties so that the domestic industry is protected?

Shobhan Mittal So, at this point of time, you see, as I mentioned, imports are not really a major threat at this point of time because of the freight costs being very high. At the same time, we had plans for BIS being implemented, which unfortunately got deferred by a year. So, this will get implemented next February, which would already create a barrier for imports coming into the country. And if the industry sees the need or the necessity for re-initiating the anti-dumping investigation, then they might do so, but at this point of time, with the increased rate and I think with BIS coming in, it doesn't seem like that may be immediately necessary to engage into another investigation for the time being.

Rishab Bothra So, your statement that there is ample supply coming in, so is it domestic supply which is hurting?

Shobhan Mittal I am talking about domestic, yes. The nature of an MDF plant being a continuous process is that the entire capacity comes into play the very first day you start the line. The day I set up my new plant, I have 18,000-20,000 cubic meters per month immediately available to me. So, that is what I am saying is that in the past year, year and a half, we have seen a few big lines come online, which is added to the supply side quite drastically, but with the market growing at 15% to 20% there is a lag of demand catching up with the available capacities.

Rishab Bothra But what I recall is when I spoke around 2 to 2-1/2 years back, most of the industry players including you and others mentioned that this situation will not arise because we have burned our fingers in the history because we, sell-side analyst had the same question that a lot of supplies are coming up, how will you mitigate the risk? And there was a response from everyone that we had burned our fingers in the past and this sort of situation or equation will not come up. And we are in the same place now as of now. So, on one hand, wood cost is burning us, on the other hand, the supply is burning us and this situation will move to what timeframe you think things will turn around?

V. Venkatramani So, if you recall, when a similar situation occurred in 2019, realizations were down by 20% whereas, if you see at this point of time, it is possibly down by about 7% to 8% definitely different from what it was in the earlier example when we saw prices moving from 26,000 to about 20,000.

Moderator Thank you. The next question is from the line of Arul Selvan from Independent Advisors Private Limited. Please go ahead.

Arul Selvan I just have a couple of questions. The first one is, just a subjective thought, what do you think are the opportunities for consolidation in the industry in your opinion?

Shobhan Mittal I don't see that any concrete opportunities at this point of time.

Arul Selvan But is it predominantly because the increased supply that you were alluding to in the previous answer has come from organized players, or is it the case that there is a lot of supply coming from the unorganized players?

Shobhan Mittal I think, you see, the unorganized players, of course, there is an increase in supply on that side as well. No doubt about that. And it won't be correct to say that we are completely insulated from the unorganized segment, but at the same time, large capacities have been added by the organized players as well. And unfortunately, being a commoditized product segment and product differentiation being very difficult in this particular segment, within the organized segment market, I think the capacity increase has been much more drastic. Greenply came in less than a year ago and Century has just started, so this of course has definitely affected the market conditions, especially in the organized segment.

Arul Selvan So, your view is that this competition in the last 1 to 1-1/2 years, this is sort of high amounts of competition and the consequent difficulties in the pricing environment have predominantly

been caused by the organized players rather than the unorganized players. Is that the right answer?

Shobhan Mittal I would say so that the organized segment competition is definitely of a bigger concern than the unorganized segment and I could probably name the companies where we face challenges from that would be Century, that would be Action, that would be GreenPly, and to a certain extent, Rushil Decor. These are the five major organized players in the country where undercutting is happening. I don't have customers, or I don't have retail partners who are quoting me an unorganized player because they know that we don't compete with that segment. But if there is a consumer who is telling me that I am being offered a Greenply at this price or Century at this price, which generally happens to be the case, then that is where the concern arises for me. To a large extent, this is quite similar to the plywood market, for example where established players like Greenply and CenturyPly are there, they don't talk about competition with the unorganized segment, to be honest with you.

Arul Selvan Now, one more question along this lines is that the proportion of the market being with unorganized players, have you seen any reduction in that in the last 1 or 2 years, both on the MDF side as well as on the Plywood side?

Shobhan Mittal So, you are saying in terms of supply from the unorganized players?

Arul Selvan Yes.

Shobhan Mittal So, I know for the fact that they are facing even bigger challenges than the organized segment. At one time, they were refusing to the association to talk to the organized players. They were like, we will do what we want to do and you guys do what you want to do, but now the organized players are being approached that we should look at price increases, which is a clear sort of indication that they have challenges while we are able to withstand this situation. And this situation was bound to happen because when timber costs have gone up and they don't have the pricing levels like the organized players do, then it is a bigger challenge for them. I also know for a fact that certain plants are currently not even operating because they are unable to sustain the current timber prices.

Arul Selvan But any number that you have in mind in terms of what the market is with us?

Shobhan Mittal No, unfortunately I don't.

Moderator Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Mutual Fund. Please go ahead.

Hrishikesh Bhagat Can you help explain this improvement in realization on sequential basis on domestic side? Small improvement, but somewhere from 29,000 to 29,600 odd what experiences on sequential basis compared to Q4?

Shobhan Mittal So, this would definitely be on account of the product mix, better value-added products.

Hrishikesh Bhagat And second is on roadmap to improvement of margin to 16%, how much will it be from operating leverage and how much do you think pricing will drive if there is anything you can guide on that front?

V. Venkatramani At the moment, we are not looking at any price increases. We are rather looking at price stability for the current quarter. So, basically it will come from operational leverage and lower operating expenses.

Hrishikesh Bhagat And the last two questions are timeline for new capacity remains same or is there any change on the timeline?

V. Venkatramani There is no change.

Hrishikesh Bhagat And finally on this, I know we spoke about timber cost, but in the South, I believe we have imports option also. Do you feel that imported timber is still expensive and largely it is a freight issue or is it that global timber prices are also on the upside?

Shobhan Mittal No, I don't feel global timber prices are on the upside. Freight is of course a big challenge. Timber is so high. So, there are two things. Firstly, majority of the countries do not allow log exports unless you are bringing in log from South America which may be suitable for the plywood business, but is definitely not suitable for the MDF business, purely because of the cost. At the same time, if you start importing chips, then the volume that you can transport as chips goes down drastically. So, if you take solid timber, let us say, the per cubic meter density of timber is around 600-700 kilos whereas when you start transporting chips, that falls down to 150-160 kilos per cubic meter. So, there is a loss of efficiency of the cost of transportation increases because of the same volume we are bringing in lesser weight. However, at this point of time, imported timber prices are still workable for the paper industry, but for the MDF industry, it is not workable at this point of time. We are exploring options from various countries. It is something that is constantly on our radar as a company. But as of now, we have not ventured into imported chips yet because domestic prices still remain competitive after factoring in the freight for the imported chips.

Moderator Thank you. The next question is from the line of Kushagra Bhattar from Old Bridge Capital management. Please go ahead.

Kushagra Just two questions, one, on your volume growth expectation of 15%, there are a couple of variables there, your new capacity will commercialize somewhere in Q3FY25, peers are ramping up the capacity and then you said 0.4 million CBM is coming in FY25 as well. So, the question really is to push that incremental 15% volume, would you need to go for more sort of pricing cuts which you are saying not but who will absorb those volumes, or you will see that inventory buildup, but won't go lower on pricing? There seems to be some mismatch if we can sort of clarify that?

Shobhan Mittal On the domestic front, we are already seeing year-on-year improvements in volumes. And we have also re-initiated the export model at this point in time, which we had consciously stopped towards in the last few quarters because of pricing pressure. We passed on some price cost increases on that side. What has come to benefit us is that freight cost from Southeast Asian countries to the Middle East increase has been much higher than what it has been from India. So, we are able to pass on, let us say, get that benefit on our FOB pricing. So, we foresee that there will be some improvement on the export volumes as well. So, at this point of time, we are looking at the market scenario, looking at how the domestic volumes are panning out. We should be able to achieve that volume growth that we have initially projected.

Kushagra So, if the market overall is seeing capacities, how do you see, who will be the guys who would absorb those incremental volumes? The incremental volumes are not only from your side, but your peers as well, so the thoughts were more around who will absorb those incremental volumes, to sort of support without pricing going down that was the question really?

Shobhan Mittal So, you see, one thing to keep in mind is that the new line that we have is going to be specialized for thin MDF production. It is a segment that we are not currently very actively present in, the 1.9, 2.1, 2.5 millimeter market, which is a huge market and we don't actively participate in the market because it is not viable to produce it on larger lines. So, that is something that will be an immediate added sort of benefit for us that we will be able to liquidate a large quantity of that from an existing network where at the moment they go to other smaller players to source. At the same time, the growth that we are projecting is also in line with the current market growth that is happening, which is around 15% to 20%. The market is also going at that pace. So, everyone is expecting that if the market is going at that and based on the last year's level, that much growth should be available for everyone.

Kushagra Second question is more like a data question, if we can call out the profitability either in margins or EBITDA per CBM for your basic, which is industrial and commercial and the international segment as well?

V. Venkatramani It is not possible to give the margin per cubic meter for industrial and value-added products because there is no way we can apportion the overheads on those different product

categories. So, overall if we look at our MDF business, EBITDA per cubic meter has been 3,379 per cubic meter for the current quarter.

- Kushagra** And international if you can call out?
- V. Venkatramani** It is very marginal. I would say possibly we are doing somewhere between 1% and 2% EBITDA on the international business.
- Moderator** Thank you. The next question is from the line of Balaji Vaidyanath from NAFA Asset Managers. Please go ahead.
- Balaji Vaidyanath** If you could throw some light on the international markets, especially the developed economies, because a couple of quarters back you had mentioned that capacities that were to go to Europe and US got re-routed to India because of the slowdown in those markets. So, are we seeing some amount of improvement in those markets is something that I wanted to know from your side?
- Shobhan Mittal** No, on the demand side, I think there is definitely deemed improvements. The biggest challenge today is on account of the sea freight. And that is where the challenge lies that people are not freely selling to the more lucrative markets because the reason why people would import from Southeast Asia would be on a cheaper landed product. But because of the freight disturbance, we are not seeing a drastic increase of material being shifted to the developed markets because of the current freight scenario. But if you talk specific on the demand in those developed markets, demand continues to remain quite robust. We are also getting inquiries from countries that we have not even reached at this point of time, but the unfortunate situation is that we are not able to cater to them because of the freight scenario.
- Balaji Vaidyanath** This includes US also?
- Shobhan Mittal** Yes, we have, in fact, surprisingly got an inquiry from the US as well. But if we choose to transport the material from India to the US, I think the freight cost would be higher than the product cost. But it is an indication that the demand is good and they are looking for material beyond their traditional sort of suppliers.
- Balaji Vaidyanath** My second question is on the value-added products that we are talking about. So, just wanted to understand that as it is we have not mistaken, I think more than 50% of the product portfolio is value-added products or some such very high number if my memory serves me right, but it hasn't kind of helped us from the point of view of margins. So, is there really sanctity towards these value-added products that we are talking about?
- V. Venkatramani** If you look at the current quarter, the proportion of value-added products was 47% of the domestic volumes. And the value-added products have two advantages. One, the realization is higher and the operating margins are also higher. So, if you look at the plain category, whether it is the industrial or commercial, now we are possibly making 12% margin, a slightly lower margin on a realization of approximately 22,700 whereas if you look at the value-added category, there is an incremental EBITDA of 3% on a value which is higher by 50%. So, the plain category is getting me a realization of around 22,700, my value-added category is getting me a realization of 37,500. So, there is definitely significant advantage in increasing the proportion of value-added products. And it also insulates me from competition from imports. So, those are the two significant advantages in trying to increase the proportion of value-added products.
- Moderator** Thank you. The next question is from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.
- Kaustav Bubna** I had a few questions on value addition. I think this is an important point. I wanted to understand is what are you exactly doing in value addition? And to the previous participant's question, I think a few questions ago, they are like, how are you going to diversify away from MDF? So, my question to you is, in your value addition space, how do you plan to grow low pressure laminates into this MDF division that you have? Because you already are making the

MDF board, then does that come under value addition because that could probably provide that volatility in the margin?

Shobhan Mittal So, Kaustav, the primary products that fall into, let us say our value-added basket would be the HDWR grade, which we call as club grade, the exterior grade to a certain extent, then we have the wooden flooring, and then of course is the low-pressure laminate or pre-laminated MDF as the industry calls it, in which we are very much already prevalent. We do close to about 120,000 sheets per month of that particular product and of course the idea is to bring these levels to a much higher number. I think our capacity is almost double of what we are currently selling on the low pressure laminate segment. So, when the thin material does become available, then there would be an added opportunity because thin MDF with the pre-lamination is also very big market. So, that would also be something of an added input to the value-added segment for us.

Kaustav Bubna And one, this 47% mix of value add in your domestic realizations, where do you see it going in 3 years?

Shobhan Mittal So, this segment for us is growing better than I would say the general market. So, we think that this could go up to 60% to 65% over the next 1 to 1-1/2 years, 2 years.

Kaustav Bubna And you said the realization for value add was 37,000 or 47,000, 37,000, right?

Shobhan Mittal 37,000.

Moderator Thank you. The next question is from the line of Aasim Bharde from DAM Capital. Please go ahead.

Aasim This 15% volume growth expectation for FY25 that you mentioned earlier, does this also include exports?

V. Venkatramani Yes, it is a mix of both domestic and exports, and OEMs.

Aasim But if there are exports also and you did talk about that you have re-initiated the export model because logistics cost wise we are more competitive. But since EBITDA margins and exports are already at breakeven levels, how would the 16% FY25 EBITDA margin come, the targeted margin?

Shobhan Mittal See, the majority of the volume growth would have to come from the domestic segment. Now, we are targeting volume growth of around 3% to 5% in the export segment and most of the volume growth from the domestic segment.

Aasim So, export still in the overall mix would be what? 15%-20% for the year, you probably want to restrict it to that level, is it?

V. Venkatramani Yes, I think it should be lower than 20%.

Aasim And second question on the MDF imports, you did talk about the freight cost is about \$30 to \$35 per cubic meter. Can you just tell us what was this level say 2-3 months ago because other industries do tell us that freight costs have come up, but at least from your commentary it looks like it is not the case or maybe it is not the case in Southeast Asia. So, will you be aware what the price was earlier?

Shobhan Mittal I think it used to be around \$10 to \$12 per cubic meter.

Aasim That was a bit lowest, right, but then in between because freight cost jumped up because of the container issue, did it rise higher and then come down to \$30 or did it rise at \$30 and it has stayed there since?

Shobhan Mittal I don't think there has been much correction on the freight in our product segment at least.

V. Venkatramani It doubled in the last year.

Moderator Thank you. We have the next question from the line of Harsh K Shah from Dalal & Broacha Stock Broking. Please go ahead.

Harsh K Shah One question from my side, so assuming the current realization as well as timber prices, so at what level of capacity utilization do we believe that for the newer plant we could be EBITDA positive?

Shobhan Mittal For the new plant, I think around 55% capacity utilization should be EBITDA positive.

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

Keshav Lahoti Just want to get a clarity on ply volume growth. Earlier you have guided 8%. So, this quarter has also been muted. You want to change it? How is it looking? And will this segment hit EBITDA positive in upcoming quarter?

Shobhan Mittal At this point of time, I think we would like to maintain the 8% growth that we have initially projected. So, we should be EBITDA positive by the end of the year for sure.

Moderator Thank you. The next question is from the line of Parth Bhavsar from Investec capital Market. Please go ahead.

Parth Bhavsar I just had a few book keeping questions. So, the first one is when you mentioned what is the share of value-added products in terms of value, I guess in terms of volume it is 47, what is in terms of value?

V. Venkatramani In terms of value, it would be 59%.

Parth Bhavsar And the other thing you mentioned that our exports margin would be in the range of 1% to 2%. Is that correct?

V. Venkatramani Correct.

Moderator Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Shobhan Mittal We thank everyone for joining this call. We look forward to speaking to everyone in the next quarter. If anyone has any further queries or clarifications, please feel free to reach out to us and we wish everyone a very good evening. Thank you.

V. Venkatramani Thank you for your participation.

Moderator Thank you. On behalf of Greenpanel Industries Limited, that concludes this conference. Thank you all for joining us.

Please note: *We have edited the language, made minor corrections, without changing much of the content, wherever appropriate, to bring better clarity.*