Greenply/2023-24
June 5, 2023

**The Manager**
BSE Limited
Department of Corporate Services
Floor 25, P. J. Towers, Dalal Street
Mumbai - 400 001
Scrip Code: 526797

**The Manager**
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E)
Mumbai - 400 051
Symbol - GREENPLY

Dear Sir / Madam,

**Sub: Conference Call Transcript**

Please find enclosed Conference Call Transcript in respect of conference call for Investors and Analysts held on May 31, 2023, on the financial results of Greenply Industries Limited for the quarter and financial year ended 31st March, 2023.

The same is also available on the website of the Company viz. www.greenply.com/investors

Thanking you,

Yours faithfully,
**For GREENPLY INDUSTRIES LIMITED**

KAUSHAL KUMAR AGARWAL
Digitally signed by KAUSHAL KUMAR AGARWAL
Date: 2023.06.05 10:49:48 +05'30'

**KAUSHAL KUMAR AGARWAL**
**COMPANY SECRETARY &**
**VICE PRESIDENT-LEGAL**

Encl.: A/a

"Greenply Industries Limited

Q4 FY '23 Earnings Conference Call"

May 31, 2023

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|---|---|
| **MANAGEMENT:** | **MR. MANOJ TULSIAN – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – GREENPLY INDUSTRIES LIMITED**<br>**MR. SANIDHYA MITTAL – JOINT MANAGING DIRECTOR – GREENPLY INDUSTRIES LIMITED**<br>**MR. NITIN KALANI – CHIEF FINANCIAL OFFICER – GREENPLY INDUSTRIES LIMITED**<br>**MR. GAUTAM JAIN – ASSISTANT VICE PRESIDENT, STRATEGY AND INVESTOR RELATIONS – GREENPLY INDUSTRIES LIMITED** |
| **MODERATOR:** | **MR. SAURABH GINODIA – SMIFS LIMITED** |

**Moderator:** Ladies and gentlemen, good day, and welcome to Greenply Industries Limited Q4 FY '23 Post Results Earnings Conference Call hosted by SMIFS Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Saurabh Ginodia from SMIFS Limited. Thank you, and over to you, sir.

**Saurabh Ginodia:** Yes. Thank you, Aman. Good afternoon, everyone, and thank you for joining us today on the Greenply Industries Q4 FY '23 Post Results Earnings Conference Call. In the panel today, we have Mr. Manoj Tulsian, Joint Managing Director and CEO; Mr. Sanidhya Mittal, Joint Managing Director; Mr. Nitin Kalani, Chief Financial Officer; and Mr. Gautam Jain, AVP, Strategy and Investor Relations. Before we begin the call, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation that was sent to you earlier. May I now invite Mr. Manoj Tulsian to begin the proceedings of the call. Thank you, and over to you, sir.

**Manoj Tulsian:** Thank you, Saurabh. Good afternoon, and a very warm welcome to everyone, and thank you very much for joining us today to discuss Greenply's operating and financial performance for Q4 FY '23 and full year FY '23. We began the year on a very positive trajectory in our plywood business with slightly subdued performance in the second half, however, concluded the year on a satisfying note. We have surpassed our original estimate of 15% value growth discussed during the beginning of the year by achieving our overall sales growth of 21% and a volume growth of 15% in FY '23 versus the previous full year.

On the margin front, we achieved an adjusted core EBITDA margin of 10.4% in FY '23, a slight improvement from the previous year. This has been achieved despite ongoing raw material cost escalation, particularly in timber. Our working capital days stood at 36 days for the year. At the end of the financial year, our consolidated net debt amounted to INR632 crores. We were able to maintain our overall guidance of net debt equity ratio to remain within 1 with a large part of our investments completed and projects commissioned.

The recent expansion of our plywood capacity at Sandila commissioned at the beginning of FY '23 is now operating at almost 60% utilization level in Q4 FY '23. As the utilization of this unit improves further, it will support our overall growth. Looking ahead, we maintain a positive outlook for the plywood industry, driven by the ongoing recovery in the real estate sector and consumer shift towards the branded products. While the upward trajectory of timber price is a concern, we remain confident in achieving double-digit volume growth in our plywood business, which we have been giving as a guidance in the last couple of years.

Furthermore, we anticipate some improvement in our margin profile also. We are committed to capitalizing on market opportunities and sustaining growth in the face of these challenges. Our Gabon business has continued to face challenges, although we saw some recovery in demand in the last quarter. In Q4 FY '23, we achieved the sales of around INR42 crores. At Greenply, we continue to be optimistic, supported by resilient demand in the residential sector, our strong presence in the premium category, significant investments in high-growth areas and the continuous enhancement of our brand value. With the commissioning of our MDF segment, our major growth driver, we expect much higher growth trajectory for the company in the next few years.

With this statement, I would like to hand it over to Sanidhya to update in larger details on the MDF business.

**Sanidhya Mittal:** Thank you, Manoj ji, and good afternoon to everyone on the call. We are proud to announce a significant milestone achieved at Greenply with the successful commencement of commercial production of our MDF unit at Vadodara Gujarat on 5th May 2023. The achievement was accomplished with a record time of 15 months, making it the fastest launch in the entire wood panel industry as well. The initial dispatches received positive responses to our products from all the customer segments.

The MDF unit will cater to all product categories and subcategories within the Indian market to meet the diverse needs of our customers. Currently, the production is focused on interior grade, exterior grade and HDMR. But as the unit stabilizes, we will gradually expand production into other categories as well. We have completed all our brand-building exercises, and our sales team is strategically positioned across different regions.

Additionally, we are actively building our dealer distribution network in various locations to ensure efficient product availability and customer satisfaction. This achievement underscores our commitment to technological advancement, operational excellence and meeting the evolving demand of the market. We are confident that the MDF unit will play a pivotal role in driving our growth, expanding our product range and solidifying our position as a leading player in the wood panel industry. With this perspective, I would like to open the floor for Q&A session.

**Moderator:** The first question is from the line of Pranav from Equirus Securities.

**Pranav:** Yes. I just wanted to understand on your EBITDA margins for FY '24 and FY '25, now with the MDF also becoming operational. So are you expecting any initial losses in that business? And what kind of consolidated margins we can work with for the next 2 years? That was my first question.

**Manoj Tulsian:** Pranav, see, in the plywood segment, I think we will be on a similar margin trajectory. We, of course, will try to improve further, but I think our focus at this point of time and that's how we have discussed even at our Board level is that we must try and achieve a double-digit volume growth for the next few years, which is also backed on, which I always maintained is that there is a shift which is happening from the unbranded to the branded segment.

So volume growth is important. And at the same point of time, we're also looking at can we further improve our margin at this point of time on the plywood business. As far as MDF business is concerned, as we maintained in the last call, this is our first year. But despite being first year, where I think our utilization may be to the extent of 40%, 45%. The margins cannot be in the range of what the established players are today earning, but it is definitely much better than 10%. In which case, the blended margin will slightly look better during this year, and this will further improve when the utilization of MDF business goes up to the level of 75%, 80% in the next year. So we see a margin improvement taking place for the next 2 years, 3 years, for sure at the blended level.

**Pranav:** Okay, sir. And sir, my next question was, can you throw some light and you can discuss the strategy on your JV in the furniture fitting segment? So what is your thought process in the same? And how do you want to take this forward, let's say, over the next 4 years to 5 years?

**Manoj Tulsian:** See, it's very early days. As an organization and also at our Board, we have been discussing that we must look at a few products, which completes our overall basket and which gives us the leverage in terms of the brand value what Greenply has created and the distribution network, which is the next strength of Greenply that how do we leverage this, right? And we were always looking at some opportunity outside the panel industry where we get a very strong partner.

So fortunately, this hardware business where we see that there is a larger opportunity the way the market is also shifting to the high-end product category, we got a good partner. And we feel that the partner is serious because they also want to set up a manufacturing facility in India along with the Indian strong partner. So a lot of these things look good from both sides. Very early days, but I think in 2 years' time, 3 years' time, this business will start doing and showing good results. And it will help us in overall leveraging our -- the brand strength in this country and the distribution network, which we already have.

**Pranav:** Okay, sir. Sure, sir. And sir, any numbers you will want to share on this segment, any margins and everything?

**Manoj Tulsian:** Too early, Pranav. I think first thing first, we are looking at now that we are still yet to find, I think the final JV papers maybe today, tomorrow or maybe in a week, Nitin will be able to tell you. And once that is done, then our whole focus, again, would be to see that how fast one we are able to create a team jointly, and second, again, establishing this manufacturing facility. These are the 2 tasks, first thing. And then in between, of course, as time goes by in the next 6 months to 8 months, we start looking at the sales plan and other things.

But I would say that first 2 years, we should not be looking at anything very great coming from this business. But from year 3, it looks like once we have a full manufacturing facility set up here and also that the team is well trained, we will be able to see some good traction from this business also. It's a high EBITDA business, much better than what we are earning in plywood. And for sure, overall, this will help us going forward. This will also be a good learning for Greenply as a company because this is a very high engineering precision product. And this is a Turkey-based company, very systematic in their approach, and they have a great R&D centre. So I think there will be a lot of cross learning also, which also we are looking at as one of the objectives going forward for our organization to look at our future growth prospects.

**Moderator:** The next question is from the line of Udit Gajiwala from YES Securities.

**Udit Gajiwala:** Yes. Sir, firstly, you said that volume growth would be in double-digit. Would you highlight some numbers that what kind of volume growth you're looking at for '24 and '25?

**Manoj Tulsian:** See, I would maintain that we are looking at a double-digit growth, 10% to 12% volume growth is what -- for sure, we are trying to achieve in our plywood business. And if consistently, we are able to do that, I think it will be good numbers. Looking at the type of challenges in plywood business overall, where the growth is suboptimal. It's mainly, I would say, distribution and again, the shift of consumer preferences from the unorganized to organized. So we are banking on these two things. Of course, we are building up our internal organization also. And so looking at these 2, 3 factors, we assume that we should grow at 10% to 12% for the next 2 years, 3 years on the volume front.

**Udit Gajiwala:** Got it. And sir, could you throw some light more on the timber cost escalation, what has been the same in Q4? And how do you foresee it in next fiscal?

**Manoj Tulsian:** Well, very difficult because since I have joined, the timber cost is today, if you really look at in the 3 years' time, the timber cost is more than 100% increase. And every few quarters, I get to hear that now the timber production will improve, the new crop will come and the prices will drop down. But it has not happened in the last four quarters or eight quarters. So -- and now I hear that this year also, this challenge will continue, possibly next year, the prices will again come down when the crop is better. So that's what we are assuming that for this fiscal year, it will possibly continue at these levels. It's going to be challenging.

**Udit Gajiwala:** Got it. So sir, on EBITDA margin front, like you said you will be able to maintain at this level. So is it possible that you could change some product mix or that you are forcing in the market with the shift happening towards organized. So could that EBITDA margin improve because of the RM pressure you are assuming it to be at similar level?

**Manoj Tulsian:** No. So 2 things. I think very, very good question. But on the RM side, for sure, I'm not seeing that we will get much benefit. That is point number one. Second, we are already a very strong player in the premium segment. And whatever we may say, but there is today a pressure on the premium segment. So I'm not seeing a big growth within my own distribution, which goes in favour of the premium segment. So when I don't see that, I don't even get that leverage.

The third leverage, of course, is growth. So once I have the growth, I get some advantage of operating leverage. That's what I'm trying to see if that is able to mitigate my -- if there is some increase in cost on the raw material side. Market is slightly subdued. So we  we are not even talking about the price increase also at this point of time in the market.

**Udit Gajiwala:** Got it. And sir, just last question, if I may squeeze on the net debt front at INR632 crores. How does it move in coming fiscal? And any capex due for this year or all is done?

**Manoj Tulsian:** No. So I think we still have a committed cost of around INR50 crores to INR60 crores, which is on the MDF side, where the cash flow has still not taken place, but they are committed costs. So the cash flows will go during this year on that front, maybe even the capitalization to that extent will also happen maybe during the year. It might be showing as a CWIP part of it. Second, on our regular plywood business, we will be looking at the maintenance capex of around INR20 crores, INR25 crores. These are the 2 plants, which are there from the capex front. In terms of debt, I think keeping these 2 also in mind, this looks to be our peak debt.

**Udit Gajiwala:** Okay. So repayment we may assume from '25, if not '24?

**Manoj Tulsian:** No, there are repayments in '24 also, maybe Nitin can exactly share the number afterwards. But I think there are repayments to the extent of INR40 crores, INR50 crores during the year.

**Nitinkumar Kalani:** Yes, yes. So we'll start repaying the MDF loan starting October, November.

**Udit Gajiwala:** Okay, sir, this is helpful.

**Moderator:** The next question is from the line of Nikhil Agrawal from VT Capital.

**Nikhil Agrawal:** Yes. Sir, just a clarification -- hello.

**Manoj Tulsian:** Yes, Nikhil.

**Nikhil Agrawal:** Yes. Yes. So sir, just a clarification. You have said that you'll be maintaining about 10% margins in the MDF segment this year, right?

**Manoj Tulsian:** No, no, no, no. 10% margin is for the plywood business. The MDF business today operates on a margin, which is in upward of 20% for the established players. Ours in the first year, where the utilization will only be around, let's say, 40%, 45%. We might end up doing a 14%, 15% margin. I'm just giving a ballpark number, all depends on how the market will remain and how the prices will remain. But we still see that we will be in that profile if the present situation is being maintained for the full year.

**Nikhil Agrawal:** Okay. Got it.

**Manoj Tulsian:** So the blended margin can be slightly -- will be slightly better.

**Nikhil Agrawal:** Okay. The blended, you mean MDF as well as plywood?

**Manoj Tulsian:** True.

**Nikhil Agrawal:** Okay. And sir, you -- in the last call, you had mentioned that you'll be targeting INR300 crores of revenue from the MDF segment -- so -- in FY '24. So you still maintain that?

**Manoj Tulsian:** Look, as I said, price for sure is something which we'll have to see how it pans out. How we are looking at is a volume of around 1 lakh CBM, 100,000 CBM during this first year, because it's a ramp-up period, like the way Sanidhya mentioned that first thing first, we were able to do the commissioning of the plant in the record time. And now the next challenge which as an organization we have taken is how fast we can ramp up and how fast we can bring all the product lines which is there in the market. Those are the things which we are looking at. Keeping that in mind, our internal estimates are that if we do around 100,000 CBM in the full year, it will be a great ramp-up. And if we do 100,000 CBM, then the numbers can range between anything around 275 to 300, Sanidhya?

**Sanidhya Mittal:** Yes. I think it depends on the product mix since we are a new player, and we will be supplying all the types of products and we'll slowly start focusing on the value-added and we'll try to increase our value-added mix, I think the top line will be judged on what value-added products we are able to sell because products today are ranging in the Indian market right from almost approximately INR27,000 a CBM to INR40,000 a CBM. It really depends that what volume are we able to sell in which category, so that will define our top line. I think we should -- we are committed to producing 1 lakh CBM this year, and we're committed to making sure that, that sells.

**Manoj Tulsian:** Yes.

**Sanidhya Mittal:** Obviously in line with the competition at the realization levels they have.

**Manoj Tulsian:** Yes. And within this 100,000 CBM, what we are also looking at the value-added products, how fast we are able to produce and stabilize that. So the more we are able to do it, the better can be the turnover, the better can be the margin.

**Nikhil Agrawal:** Okay. Got it. Sir, any light on the realizations currently, I mean, average realizations, any roundabout figure?

**Sanidhya Mittal:** I think it's too early for us to comment.

**Nikhil Agrawal:** Okay.

**Sanidhya Mittal:** We're trying to make sure that we are priced because Greenply is a premium brand. We're trying to price ourselves at par with the competition. And we're trying to make sure that we're doing everything right to get the sales network. And obviously, we are located in that, so we want to capture the best market. So we've positioned our team also in that fashion that we are able to capture the closer markets to maintain our profitability.

**Nikhil Agrawal:** Okay. Sir, a little bit on what you said just now, like what is the scenario in the Western market in the West, like are imports flooding the market out there as well as we've heard in the South?

**Sanidhya Mittal:** Imports are affecting West and South primarily and other parts of the country, imports are not there. But every grade is not being imported in India and every size are not coming in India. And also, if you see the density of the imported product is slightly inferior. So a lot of things are not possible in the imported product. So we are trying to focus more on exterior, more on HDMR, which is not imported. And we're trying to leverage our brand name in a big way, and we're trying to create more and more customers who can keep buying our products sustainably from us. And ahead when imports have opened up, it is difficult, but we are confident of the volume we are committing.

**Nikhil Agrawal:** Okay. Got it. Sir, just one last question. Sir, your cost of raw materials quarter-on-quarter, they've fallen down. So if you could help in explaining that, how is that possible?

**Manoj Tulsian:** Cost of?

**Nikhil Agrawal:** Materials consumed as a percentage of top line and even in absolute numbers, it's fallen down on a quarterly basis.

**Manoj Tulsian:** No. Are you looking at the plywood business or...

**Nikhil Agrawal:** No, I'm looking at the consolidated numbers?

**Manoj Tulsian:** Consolidated numbers also have today Gabon and other businesses. So I would say that we should look at the Gabon business separately because that is another very different RMC and very different business.

**Moderator:** The next question is from the line of Achal Lohade from JM Financial.

**Achal Lohade:** Yes. Yes. Yes. Sir, a couple of questions. One is first on the plywood business. Yes, I mean, we have double-digit growth for FY '23 as a full year, but if I look at 4-year CAGR prior to COVID and where we are, our CAGR is substantially lower than the peers. Now what I'm trying to understand a, have we gained market share? Have we just maintained market share? Or is there any marginal market share loss we have seen over the last 4 years I'm trying to figure out?

**Manoj Tulsian:** See, Achal, I'll tell you 2 things. One, how we have to look at is that where do we stand as an organization today. So every organization has their own challenges, capacities, where are those capacities and where is the demand coming, the product lines. So within that same industry also different companies have a different way of dealing. Our thinking process and our business plans are different than maybe many of the other companies which is there in the same business. So what we have to see is whether we are able to deliver basis the business plan what we make. That is point number one, which we have been able to do in the last few years.

Second, when it comes to market share, I would presumably say that all the branded goods players are gaining market share of the overall market. Because if you really see whatever we as an organization have also grown in the last 2, 3 -- 2 years, I would say, mostly is not the type of growth, which has happened in the overall plywood industry. So the branded goods players are gaining the market share of the total pie, and this is a very healthy sign.

**Achal Lohade:** Okay. Can you elaborate a bit with respect to the premium and non-premium mix for us, for the industry? And how it has changed over last year for us?

**Manoj Tulsian:** I don't have the number for the industry, but I would say that in the premium segment -- just one second, Nitin, can you tell me exactly the numbers? Where we stand, Nitin, for the last year?

**Nitinkumar Kalani:** One second, sir.

**Manoj Tulsian:** So we are almost at around 50%.

**Nitinkumar Kalani:** Yes. Yes.

**Manoj Tulsian:** Okay. And also it is between 50%...

**Nitinkumar Kalani:** Premium will be 51% of our overall volumes as against 54% in the prior year.

**Manoj Tulsian:** Yes. So we are also growing in the mid segment, okay, because that is where the mass volume increase is taking place. But we are also committed to make sure that Greenply maintains its brand leadership through its -- through continuously launching products in the premium segment. That's what Greenply is always known for.

**Achal Lohade:** Got it. Sir, you talked about volume mix. Can you just give some sense about the value mix as well for FY '23 and FY '22?

**Manoj Tulsian:** Value-wise, we're at -- I mean, last year, we were 64% premium brands. This year, we are at 61.3%.

**Achal Lohade:** Understood. The second question I had, can you help us understand what is the A&P spend in 4Q FY '22 and 4Q FY '23 in absolute numbers, sir?

**Manoj Tulsian:** A&P spend?

**Achal Lohade:** Yes, advertisement spend.

**Manoj Tulsian:** A&P spend, we have done in FY '22, we were close to around, if I'm not wrong, 3.8%, and this year, we were at around 3.1%.

**Achal Lohade:** Possible to give for the fourth quarter as well, sir?

**Manoj Tulsian:** Fourth quarter numbers, I don't have with me.

**Gautam Jain:** It's 1.6% for this quarter and the corresponding quarter is at 5.6%.

**Achal Lohade:** And 5.6%, right?

**Sanidhya Mittal:** Yes.

**Achal Lohade:** Now the other question I had with respect to MDF business. Is that -- can you give us some sense in terms of what are the imports? Like you mentioned that not all grades are imported. What's the typical import mix you are seeing? And like how do we face evolving given the freight rates have come off, global MDF prices are down, and what's the expectation on the ADD front? How soon, what quantum can the industry possibly look at?

**Sanidhya Mittal:** I think at Greenply, we are just looking at the challenges are the challenges. If they may come obviously, we'll try all our efforts and we'll put all our representations in place and we'll try to make sure as a company that ADD comes and it's going to be a very beneficial scenario. But for now, for our planning, we are considering the value in our ADD. So rather it will be as is and we need to sail through in the tough time. So in the tough time, the major challenges in the low density interior E2, which comes into the country and mainly in West and South.

So we are trying to build a market in the West. We're trying to build a market in the South. We're trying to build a market in NCR, which is the largest consuming market for MDF, and obviously, in other parts of the country also. And we're trying to focus that we produce more of exterior and more of HDMR when the challenges in import is very, very low, because that product is like import is 100%, my estimation is that 90% is interior E2, 10% is all other categories put together.

So we're trying to grow in the value-added segment, where we can make better top line, where we can make better realization, and we can leverage the brand Greenply, which is our strength. And so it will be tough times. And once the ADD is in place, the government realizes it needs to protect the Indian manufacturers who are investing on facilities in India. Once that happens, we will definitely see great numbers like how we were seeing in COVID times with all the competition.

**Achal Lohade:** Got it.

**Manoj Tulsian:** We have got our payments without the ADD thing, okay, that's what we are clearly looking at, at this point of time. ADD will definitely -- the industry, whole industry, I understand is working on that. Whenever it happens, it can be definitely beneficial. And as Sanidhya is saying, ultimately, the imports today is only the interior rate, and that's what we maintain that we will try to see how fast we can ramp up beyond the interior rate into our exterior and HDMR and the other value-added products. That's a winning statement for us. That's how fast we can ramp up and stabilize those production.

**Sanidhya Mittal:** And also one more thing, as a company, we do not have any export liabilities on this plant. So we are not bound to keep exporting at a lower realization. So that gives us advantage that we have no export liability. So we will want to focus only on the Indian market and grow that. However, we might export 3% to 4% of our production just to have an alternate backup for our business.

**Achal Lohade:** Got it. Just at PBT level, what -- at the current rate, what utilization do we breakeven?

**Manoj Tulsian:** Sorry, come again?

**Achal Lohade:** At what utilization does this MDF plant breakeven assuming the current rate of current realization level?

**Manoj Tulsian:** I think it should be -- the cash breakeven can happen around 45%, 50% utilization. So it will just be -- as Sanidhya said, it will depend on the product mix, which we are able to sell within this 100,000 CBM. But there is a possibility that if the product mix is slightly better, we'll be able to, for sure, cash breakeven by selling 100,000 CBM.

**Achal Lohade:** Got it. And just one last clarification if you could, sir, in terms of the total market size for the West and South market, where we would be far more competitive given the price advantage.

Can you give us some sense a, the site, and b, how it will grow in this? Have you seen some flatness out there as well or it's going very well?

**Sanidhya Mittal:** Sorry, can you please repeat the question?

**Manoj Tulsian:** South and West, he's saying.

**Achal Lohade:** South and West...

**Sanidhya Mittal:** Sorry, can you please repeat your question?

**Achal Lohade:** Yes. So South and West will be far more competitive given our location, right, or West and Central rather instead of South. So maybe you could elaborate which process we will be far more competitive because of the location, the site manufacturing location? And what's the size of that particular cash flow during the year?

**Sanidhya Mittal:** So I mean our plants are very strategically located. Obviously, the West and Central will be my primary focus. But in South, we Greenply has its own set of loyal dealers and South is a huge consuming market. So we are also very well placed and we have already launched our product in markets in Karnataka, in Andhra and Telangana, in other South states, we're not focusing, and in the West, we're focusing. And NCR is one of the largest markets of MDF. So for us, NCR is also a very, very viable market when we look at the state.

Obviously, the market competition in NCR is huge because almost all the top players have a facility in and around NCR, but Greenply has its own set of loyal dealers and distributors. And that is almost 30% of the network and 70%, even in the MDF category when Greenply has come, I think we will receive the overwhelming response from the dealer distributor network. And we are already transacting with a lot of customers.

So I think I don't see sales as a challenge, we'll be able to sail through, obviously time that up, import is open. So the realization might come under pressure because more and more capacity will come in. But we will be absolutely in line with the competition in terms of the prices. We don't want to sell cheap.

**Moderator:** Thank you. The next question is from the line of Parth Bhavsar from Investec India.

**Parth Bhavsar:** Sir, my first question pertains to the EBITDA margin. So we see that your EBITDA margin improvement was somewhat led by lower A&P spend during the quarter.

**Parth Bhavsar:** Yes. So in terms of your EBITDA margin, sir, we believe that the improvement during the quarter was partially led by lower A&P spend, which was 1.6% as you earlier guided. So just wanted to know like, sir, what would be the quarterly run rate? Is this a normalized level or will it go back to 3%?

**Manoj Tulsian:** You are saying for the A&P spend, right?

**Parth Bhavsar:** Yes, A&P spend, yes.

**Manoj Tulsian:** See, A&P spend for the full year should be in this range. But what happens is that you can always see a quarterly fluctuation, that depends that as per the accounting standard now you have to build the expenditure in the quarter only when you are actually entering the expenditure.

So the earlier accounting standard system was that if we know that, let's say, we are going to spend a good amount of money in quarter 4, we used to keep a consistent provision throughout the year. But now the accounting standard does not allow it. So they say that only you have to -- whenever you spend, you book it. But for the full year, we should be in similar lines. You may always see the fluctuations we have seen between quarter-to-quarter.

**Parth Bhavsar:** Right. Sir, the Q4 FY '22 number, the 5.6% spend, this was related to the LSG thing that we sponsored?

**Manoj Tulsian:** No, this year, yes. Mostly, it was related to that only this year.

**Parth Bhavsar:** Okay, okay. And sir, my second question...

**Manoj Tulsian:** Previous year, we had LSG also, and we also had done a TV commercial in the last quarter. So the previous year spend was high in quarter 4.

**Parth Bhavsar:** Okay. Got it. And sir, just wanted to know about the MDF capacity in FY '24 for domestic players. And also like how much -- what is the capacity other players are adding over FY '24 and FY '25, if you could help?

**Sanidhya Mittal:** I think we can share that data with you. We don't have it on our -- because it's for the listed entities and the larger players, yes, we do understand that Century is coming with a large capacity, Greenpanel is adding another line. Action is due to start up new lines, I think in another 2 months. So we understand this -- because their data is publicly available. The smaller players are coming in also very fast. I think their data is collated, we can share with you the data we have. And we want to learn from your community, you guys usually have better data than us, our data also flows to you all there.

**Parth Bhavsar:** Fair enough. And sir, just wanted to like, I guess you guided that Sandila plant had operated at 60% utilization, right?

**Manoj Tulsian:** Yes, yes. Yes.

**Parth Bhavsar:** So sir, here on if this one -- this plant that operates at 100% utilization, do we expect that -- since we are moving to our own manufacturing products versus trading, I believe that your share of trading and outsourced volumes would go down. Do we expect any margin expansion? Can we see that?

**Manoj Tulsian:** See, Sandila plant definitely, the margins will be slightly better than the other plants which we are operating, some of the other plants, not all the plants. So yes, there can be an advantage. But this is not about trading or own manufacturing because if I'm talking of a 10% to 12% volume growth, there is a sizable overall turnover, which will happen.

So partially, it will come out of the Sandila plant by higher utilization and partially maybe will be depending on some of this new facility like Hapur and a few more facilities which we are looking at even in South in terms of the tie-ups what we have. So it will be a mix. The growth we get catered to both our Sandila additional utilization as well as these trading platforms what we have.

**Moderator:** The next question is from the line of Rupesh Tatiya from IntelSense Capital.

**Rupesh Tatiya:** Okay. Okay. I was saying, sir, congratulations on MDF plant commissioning. Yes. My question, sir, is based on raw material supply in the Western region, is there a possibility for a second plant either by you or a competitor in the Western region? This is my question number one.

**Sanidhya Mittal:** So I'll answer this question. So in the region where we have our closest competition not in terms of end product but our closest competition in terms of buying raw material will be Merino. So the good thing is that we could start our plant 5 months ahead of them. So we were able to establish a buying relationship with the farmer and with the local community before they could establish. So that was a big advantage for us. Plus there's also JK Paper Mill, which is about 300 kilometres from our location, which also is a major consumer.

So given 3 of us, in the short run, I really don't see a space for another large MDF capacity coming there. But we are working very, very hard to ensure that our raw material is available sustainably. In the last 2 fiscal years, from the time we had purchased the land to we actually established our plant, we already started the plantation drive with the farmers. And very proudly, I can tell you that we've done over 2 crores saplings only in the last 2 financial years in that region. And at full capacity, when we run our plant, we need about 80 lakh trees a year. So more than what we need is what we are planting in that area.

And we are working with the local community and trying to make sure that with the industry we'll also drive the premium price. And our raw material cost to invest is more or less at line with all the manufacturers in the North.

**Moderator:** Mr. Tatiya, to ensure that all the participants are addressed, may I request you to join back the queue for any follow-ups. The next question is from the line of Dhiral from PhillipCapital PCG.

**Dhiral Shah:** Yes. Sir, I just have two questions. Sir, on the JV side, are we not able to address the issue? Because if I look at the volume of JV on a Y-o-Y basis, it is still under declining mode?

**Manoj Tulsian:** Which JV you're talking about?

**Dhiral Shah:** Sir, the existing JV at Bareli, which we have two JVs. So on a Y-o-Y basis, there is a dip in the volume.

**Manoj Tulsian:** Yes, yes. So there we have faced some challenges in terms of ramping up part of that one facility, and that has continued. So we are trying to resolve it, okay? We have not been able to get the best of the traction from these Bareli units if you truly see.

**Moderator:** Dhiral, please join the queue for any follow-ups. The next question is from the line of Aasim from DAM Capital.

**Aasim:** So just -- sorry, before addressed earlier. But I just wanted to understand that if your volume growth expectation for plywood is, say, double-digit, 10% to 12%, would revenue growth still be lower than this since premium segment is under pressure, plus you don't have leeway to take price hike? And also if you could just talk about what would be the ESOP cost component in FY '24? Would it be same as FY '23?

**Manoj Tulsian:** So in terms of the ESOP thing, I think Nitin can tell you, it should be in the range of maybe for the full year, INR4.5 crores or INR5 crores for this year, Nitin?

**Nitinkumar Kalani:** Yes, yes, yes, that's right number, approximately INR4 crores.

**Manoj Tulsian:** INR4 crores for this year as of whatever has been granted, right? This is the grant which is given, right?

**Nitinkumar Kalani:** Yes, yes, yes.

**Manoj Tulsian:** Any fresh grants if it is given, then that may bring in additional cost. And your first question?

**Aasim:** Sir, basically, revenue growth would be lower than volume growth.

**Manoj Tulsian:** So at this point of time, I'm assuming that it should be similar because in quarter 4, we had taken a price increase, but we could not actually pass on the same. This year, we will try to see that if we are able to pass on the same, though still we have not been able to do it until the month of May. So the additional schemes which were going on, so that is one protection if we are able to do that.

And second, of course, we -- as I said, that we are quite in mind that we should be maintaining our premium segment share of business within our overall pie. So these two factors are there. At this point of time, I would say that best assumption is similar volume growth and value growth.

**Moderator:** The next question is from Rajesh Ravi from HDFC Securities.

**Rajesh Ravi:** Yes. My question pertains to first on the Gabon subsidiary, could you throw some light on what is the outlook for the same revenue and margin?

**Manoj Tulsian:** Probably Gabon, last quarter was better. We had some good order book. And the real worry of Europe also slightly subsided in terms of their manufacturing facilities and this post Ukraine war. So we've got some better traction. If you really look at this quarter, I think this business is now we are actually measuring on a quarter-to-quarter basis. This quarter, we have a decent amount of orders which will be helping us to do a similar number as of Q4.

We have capacities in place. If things stabilizes, things improves, and for sure, we can even do better numbers there. And we have tried to see wherever we are able to cut down on costs and other things rationalize, those areas which we have already done. So -- but giving you outlook for the full year, something I can address at this point of time say that maybe we will replicate our quarter 4 performance during this year for sure as much visibility is there.

**Moderator:** The next question is from the line of Govindlal Gilada as an individual investor.

**Govindlal Gilada:** Yes. I want to look at longer-term outlook, sir, on MDF, these margins, there are a lot of volatility there. So what kind of margin sustainable for, let us say, 2 years, 3 years, 4 years, what kind of margin band it will be MDF?

**Sanidhya Mittal:** I think there are a lot of external scenario which are actually defining the margin. It totally depends that I think somebody asked about the ADD. So if ADD comes in, the scenario totally changes. If ADD is not there, and import, the freight rates remain low, the scenario is different. If the freight rate increases is where the scenario came with. So I think it's very, very difficult to predict what the margins will be next 4 years, but we are very confident that the organized segment, whether Greenpanel or Century, Action, would be similar to our margin and everything, in our realization and everything.

So it's very difficult. I don't think it will be right for me to comment on what will be the margins in the next 4 years. We'll be in line with the competition, and we are very confident that we will be able to sell our production and ramp-up and the scenario of the market.

**Manoj Tulsian:** See, we'll be matching the industry level. We have similar facilities, the best of the line, all the product lines, which is there with any of the established player today. So that the derivative would be that where is the industry heading to. The outlook can always be given as a very positive outlook, but I would say the best way to look at it is that we have to go with the flow. And wherever the industry, the top 3, 4 players are heading to, including us, we all will be possibly in the same range.

**Moderator:** The next question is from Arun Baid from ICICI Securities.

**Arun Baid:** Sir, just one clarification here. Sir, just one clarification here. You have already started our MDF business. You already have a dealer network in place. What is the kind of working capital or the debtor days you're working there? And what should be the model for our perspective for this business? And number two, correct me if I'm wrong, when I spoke to dealers in North and even in the West, they told me your pricing is a bit cheaper compared to your competition. So please, can you just throw light?

**Sanidhya Mittal:** Arun, I throw light on the first question first. So I don't think we are -- like we are selling cheaper than the competition. We are absolutely in line with the competition. Obviously, when you start up the line or there's ramping up to maybe 2 grade is more produced than the A grade. So the realization on the short run for the quarter might look slightly good compared to competition, but on a full year, on a long-term 2-year, 3-year basis, prices will not be lower, for sure, number one. And what was the first question, Arun, sorry?

**Arun Baid:** On the working capital...

**Sanidhya Mittal:** On working capital, we are not offering anything extraordinary as a company that the working capital days are 3 year. We're going to replicate the plywood model there or anything like that. We're absolutely in line with the industry. And our CD terms, our APD terms are very, very strict, exactly the way other companies are doing. Almost I think our internal target is 30%, 35% business in advance balance on a 7-day CD on 14-day and on 21-day, just the others are operating. So we're operating in a very similar fashion.

So on a short run, if our volumes will be lower for the first 2 years, 45%, 50%, then 70%, 75% and then 100%, so on a short run and a shorter -- and a smaller turnover, those might look -- but once our capacity is completely achieved, we are selling the entire capacity, I don't think we will be anywhere -- will be absolutely comparable with the competition, there won't be higher than this.

**Arun Baid:** And just one follow-up here, was that -- when we plan this plant, we would have ballpark some estimate about EBITDA, right, what do you think from this business is? So a participant asked that question about EBITDA, sustainable one. So what would that number be in your mind? I know it changes because of wage situation you mentioned very correctly. But when I'm putting a plant, I would have a ballpark number in mind, that this is my sustainable margins or EBITDA or whatever you want to look at, what would that number be in Europe?

**Sanidhya Mittal:** Definitely on the lower side, we were targeting anything between 20% to 22% EBITDA. This is what we feel is sustainable on a long-term basis. Even if you take out a time 6-year average, we feel like we'll be at least there 20%, 22%. And for our cash flow purpose and for our payback and for our banking, etcetera, we designed everything at 17% because we want to be very, very safe and conservative as far as cash flow is concerned.

**Moderator:** The next question is from Niraj Vijay Kamtekar from ProsperoTree.

**Niraj Vijay Kamtekar:** Sir, what is the sales value of own manufacturing plywood at stand-alone level?

**Manoj Tulsian:** What is the sales value...

**Niraj Vijay Kamtekar:** Of own manufacturing plywood at stand-alone level.

**Manoj Tulsian:** Looking at the number like this, maybe Nitin or Gautam can give you this number afterwards, Niraj.

**Niraj Vijay Kamtekar:** Sorry?

**Manoj Tulsian:** Nitin or Gautam -- maybe you can get in touch with Gautam, he might be able to give you this number afterwards. I don't think we have this number readily available at this point of time.

**Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Saurabh Ginodia from SMIFS Limited for closing remarks. Thank you, and over to you, sir.

**Saurabh Ginodia:** Yes. Thank you, Aman. I would now request Mr. Sanidhya Mittal to add any closing comments.

**Sanidhya Mittal:** Thank you all for taking time to participate in this call. In case of any further clarifications or queries, please feel free to reach to Mr. Gautam Jain. Thanks again, and goodbye.

**Manoj Tulsian:** Thank you.

**Sanidhya Mittal:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of SMIFS Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines. Thank you.