Greenply HAR ZARURAT KA REPLY

Greenply/2023-24
February 07, 2024

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 February 01, 2024, on the financial results of Greenply Industries Limited for the quarter and nine months ended 31st December, 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: 2024.02.07 11:31:14 +05'30'

KAUSHAL KUMAR AGARWAL
COMPANY SECRETARY &
VICE PRESIDENT-LEGAL

Encl.: A/a

"Greenply Industries Limited
Q3 FY2024 Earnings Conference Call"

February 01, 2024

ANALYST: **MR. KARAN BHATELIA – ASIAN MARKET SECURITIES**

MANAGEMENT: **MR. MANOJ TULSIAN – JOINT MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – GREENPLY INDUSTRIES**
MR. SANIDHYA MITTAL – JOINT MANAGING DIRECTOR - GREENPLY INDUSTRIES
MR. NITIN KALANI - CHIEF FINANCIAL OFFICER - GREENPLY INDUSTRIES

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2024 earnings conference call of Greenply Industries hosted by Asian Market Securities Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance, involve risks and uncertainties that are difficult to predict. Actual results may differ from such expectations, projections, etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhatelia from Asian Markets Securities Limited. Thank you and over to you Sir!

Karan Bhatelia: Thanks Muskan. Hi everyone. On behalf of Asian Markets Securities we thank you for joining us on the Greenply Industries 3Q and nine month FY2024 earnings conference call. In the panel today we have Mr. Manoj Tulsian, Joint Managing Director & CEO; Mr. Sanidhya Mittal, Joint Managing Director, Mr. Nitin Kalani, CFO. May I now invite Manoj ji to begin the proceedings of the call. Thank you and over to you Sir!

Manoj Tulsian: Thank you Karan and good evening everyone. It is a pleasure to have you all on this call. I will be updating you on Greenply's operating and financial performance for Q3 and nine months FY2024. First of all, I am very happy to share with you that we have achieved the consolidated revenue of 621 Crores during this quarter, which is the new highest ever for the company in any single quarter. I am also excited to share with you that on a consolidated basis, our revenue has grown by 45% on a Y-o-Y basis and on a nine month basis a growth of 24%. With this I am very confident that this trend will continue in the upcoming quarters and this also corroborates to the 22% CAGR for FY2024 over FY2022, which was mentioned earlier in my last quarter speech. Please note that actual number will have to be looked at on a like to like basis excluding Gabon revenue once the transaction is approved by the shareholders. During the quarter, our consolidated EBITDA has grown by 56.5% on a Y-o-Y basis. Now I will share some highlights of business wise performance. In our plywood business, revenue growth was 11.9% on a Y-o-Y basis majorly driven by 11% volume growth. On a nine month basis, we have achieved approximately 8% volume growth. With this, we are very confident of achieving our annual volume growth target of 8 to 10% as guided earlier. On the margin front, our adjusted core EBITDA margin was at 8%. The raw material costs continue to show an increasing trend seen during this year. During the quarter, we continue to invest in building the brand equity and continue with TVCs to leverage our partnership with Junior NTR, whom we appointed as our brand ambassador earlier this year.

This also had an additional impact on the quarter's margin. Our PAT for the quarter was at 27 Crores. The PAT includes one-time impact of reversal of interest provision in the matter pertaining to area based exemption under central excise to the tune of 8.9 Crores as a result of favorable order received from the department. Moving on to MDF business, our revenue in the third quarter was at Rs.128 Crores and a volume of 41,928 CBM, which was better than our expectations and we are confident that we will well exceed our guided 1 lakh CBM volume during this financial year. I am happy to share with you all that we have started selling our value added products during the quarter and we are also planning to add more VAP in our portfolio in the near future. During the quarter, our EBITDA without Forex was at 13.5% as against 13.4% in the previous quarter. We realized that our EBITDA in Q2 included positive impact of foreign income on the loan outstanding which during the current period reversed and turned negative due to adverse currency movement. These items distort the quarterly performance. We have now corrected the EBITDA calculations to exclude such income or expenses which are noncash items and significantly fluctuating quarter over quarter and not a part of operating EBITDA performance. Since we are still in the phase of stabilizing the plant trial runs of new products as well as ramping of our capacities, cost optimization, we believe that the true level of EBITDA will be visible in the coming financial year only. More details on the same will be shared by Sanidhya later on. Our revenue in Gabon business were almost similar to last quarter and we continue to make losses in that business during the current quarter. We are happy to share with you that we have reached an agreement to give away majority stake and management control in our Gabon business. The business had been loss making for past several quarters and the company was finding it difficult to manage the operations of Gabon and one after another challenges we are getting posed while running the business. Since pandemic, the Gabon operations have not shown any signs of stability and the debt levels kept on increasing. Subject to shareholder approval, the transaction should be completed within Q4. On a consol basis, our net debt levels are at 732 Crores against the previous quarter debt level of 713 Crores, which is well within our guided peak net debt level of 750 Crores. This increase in debt is due to two main reasons. Firstly, we made an investment in our hardware JV amounting to Rs. 10 Crores during the quarter and secondly, our working capital levels in absolute terms increased both in MDF as well as plywood business. We are accumulating additional inventory of timber as well as core, which is typical in this quarter to meet our requirements in the fourth quarter. However, if we have to compare with Q3 FY2023, our working capital days for the plywood business are at a level of 36 days as compared to 38 days in the third quarter last year. In January, we have already made additional investments of 15 Crores in the JV and are also likely to make additional investment towards VAP in our MDF business going forward. However, we are confident that we will remain below the guided net debt level of 750 Crores. After the completion of Gabon transaction, which is subject to shareholder approval, the consolidated net debt at the yearend will be somewhere around 525 Crores. With this statement, I would like to hand it over to Sanidhya to provide more insights on our MDF business.

Sanidhya Mittal: Thank you, Manoj ji and good evening to everyone on the call. In our MDF business, we are progressing well. I am happy to share that we have achieved the revenue of Rs.128 Crores, also having a positive cash flow from operations and at net zero at PBT level in this quarter as well ahead of our original plans, it is a result of our meticulous planning, team effort, brand strength and commercial discipline. During the quarter, we have installed a few short cycle pauses as well as ramped up production of our pre-lam MDF boards. In addition, we have launched other value added product categories like CARB and Boil Pro. Being a premium player we will be introducing other innovative value engineering products to serve all categories of customer segments going forward. In the last quarter, we sold 41,928 CBM's with a blended realization of Rs.30,629 per CBM. On a year to date basis our sales volume has been 79,009 CBM with a sales realization per CBM of 29,649. As our share of sales of value added product increases, the realization should also increase. From the full year perspective, we are confident of well exceeding our sales volume guidance of 1 lakh CBM. With this perspective, I would like to open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Hi Sir. Congratulations on good set of numbers. A couple of questions. First on Gabon, any particular rationale to take out 51% stake that is one. What impact would it have on both the balance sheet and P&L that is related to Gabon. Probably I will come with the other questions after you answer or if that is fine.

Manoj Tulsian: I mean let me again ask you a question when you are saying the rationale behind the 51%, right?

Ritesh Shah: That is right.

Manoj Tulsian: So, I mean what exactly is you are trying to understand, it is more, it is less or what exactly you are trying to figure out.

Ritesh Shah: So why not 100%?

Manoj Tulsian: So Ritesh the simple reason, we were actually trying to get a buyer since almost two years and it was not at all easy to find anyone who could have taken over the business. Our intent was clear that you are able to fully hive off this business, but we could not because what happens is the other party still felt that we still have so much of experience in this and there is a huge risk. I can only tell you this much for the buyers had 51% whatever they have taken and they felt that they are not interested in taking anything more at this point of time. Second thing in terms of balance sheet and P&L, once the shareholder approval is in place which I think would be there in Q4, by February end. For Q4 results when we will declare from Q4, only this consolidation will not happen. So debt and all other assets and everything of Gabon which was getting consolidated will no more get consolidated. In terms of P&L only one line item will start reflecting as our share of profit or loss from the JV going forward. The control of course will move away to the buyers.

Ritesh Shah: Sir should one assume one 150-200 Crores of delta on that because of this or is the number higher than this.

Manoj Tulsian: So I mentioned that we have a debt of close to around 237 Crores which will not get consolidated in the year end balance sheet which means that our debt profile will somewhere come down to around 520 to 525 Crores.

Ritesh Shah: Perfect this is helpful. Sir my second question is - congratulations on MDF ramp up and margin profile. You did indicate that we will have incremental investment whether the product is going forward, possible to give some timelines and capex numbers and incremental benefit that will draw out of this.

Sanidhya Mittal: Next financial year, we plan to spend almost close to 40 Crores on capex in MDF and this is mainly on two grounds. One is to increase production capability to manufacture value added products and the other is to increase our existing line capacity from 800 CBM and to 1000 CBM. So all our balancing machines in the plant is planned for 1000 CBM from day one. The press however will get extended and we will be able to churn off 1000 CBM from this line instead of 800 CBM. So this 40 Crores includes both line extension as well as value added products.

Ritesh Shah: So this will happen in FY2025. So should we presume this benefits will come say from FY2026 on the P&L?

Sanidhya Mittal: For sure yes, absolutely.

Ritesh Shah: Okay fine this is quite useful. I will join back the queue. Thank you so much. All the very best.

Moderator: Thank you. The next question is from the line of Sneha from Nuvama. Please go ahead.

Sneha: Good evening team and congrats on a good set of numbers. Just a couple of questions from my end. If I look at your MDF segment, there are a couple of questions on that particular segment. If I see this quarter you started value added segment but ex of forex your margins have remained same. Could you clarify on that particular point that why have your margins remained same?

Manoj Tulsian: Your voice is cracking so I think the first question we were able to understand but the second one was not clear. Maybe Sanidhya can answer the first question.

Sanidhya Mittal: So there are a couple of reasons for that. So when we started the line, we started buying timber right from March. So if you see the timber trend from March to now there has been a continuous increase. So in Q2, we were consuming the older raw material obviously because we cannot carry that forward. So the raw material side, the cost was low. Also when we started value added products in this quarter there were some losses which we made while producing value added. These are just startup losses or losses related to production and inefficiencies in terms of consumption parameters and then followed by that there was another drag which was the marketing cost. So in Q2 there was almost nil marketing cost and in Q3 it was Rs.3 Crores so after that effect the margin is remaining same.

Sneha: Understood and your raw material supplies are coming from where and if at all you could mention those older inventory has gone away, what is the kind of timber pricing are you receiving some sense there would be helpful.

Manoj Tulsian: You want a number.

Nitin Kalani: The prices currently are about Rs.6500 to 6700 a tonne on an average, which was around 5500 when the initial stock was built up.

Sneha: Understood so that initial stock has gone away, right. We are now building up inventory as and when required.

Nitin Kalani: Yes absolutely.

Sneha: Understood and what would be your current regional mix in terms of sales and where are we exactly targeting MDF?

Sanidhya Mittal: Obviously we are trying to sell most of our capacity in west and we are selling a little bit in the north as well and very little in the east and very little in south. And being placed in Gujarat gives us a great advantage because not only do we use road transport, we also use sea transport to domestically send our material to south India which is really cost effective.

Sneha: Understood and do you have any share of exports at this point of time? I understand you do not have obligations, but are you exporting something given that you have port which is close to you.

Sanidhya Mittal: I mean it is not making economic sense to export and we have only one line and as a company and our philosophy is very clear that we want to focus on value added products. So we want to use our brand name. We want to focus on that and some value added product to the market. And as of now we are just sitting with one line and we are quite confident that we can sell this in the trade itself. We do not need to look at exports.

Sneha: I understood and lastly on your pricing in case you can just mention where are we versus our peers and imports at this point of times.

Sanidhya Mittal: If this question is pertaining to Q3, we were probably 1 or 2% cheaper depending on market and product to product compared to peers. If you talk about today, I think everybody is at the same level because I guess the scenario is very competitive at the moment.

Sneha: And how much would the imports be cheaper at this point of time.

Sanidhya Mittal: See in terms of mainly industrial grade and offer lower density and honestly that is not our segment at all. We are neither trying to match that, neither are we trying to focus there. We are very clear that we want to make even in the interior grade, we are making much higher density than import. We are trying to leverage our brand. We are trying to leverage our distribution strength and we are trying to play there. So we are not trying to compete with import because given the size we have in terms of just one line and that much material to sell we are quite confident that we have to sell only domestically at our prices. We should not get into this price war of matching with import. We will not be able to survive.

Sneha: Understood and last question if I may. If you could speak about BIS non implementation, what is your take on that? Do you think it's getting implemented itself or are you expecting some delays around and what is the kind of impact that you see on your business because of BIS?

Sanidhya Mittal: I think it is a great step that the government is taking and we definitely need to bring the standards in and protect the domestic manufacturers from cheaper quality imports that are coming in. And with this then the field becomes level play and obviously for any organized player like us it is going to be great because with BIS definitely in the short run imports will be greatly affected and fingers crossed hoping that it comes in and all of us start doing very well in MDF.

Manoj Tulsian: Just to add I think they are representation possibly that is why you are asking this question. We have also heard that their representation to delay this. But if you really read the intent paper, it very clear says that one that the government wants the basic standards to be maintained in the wood panel industry. And second, they also are trying to see that the domestic industry the make in India concept actually it gets a boost. So it remains to be seen but if you truly ask me with the intent it is kind of difficult to see that this will get extended and this will not get implemented from 1st of March. Even if it happens, maybe the government might get a giveaway of two, three months, not more than that.

Sneha: Understood and what is the cost of getting BIS license? I am sorry that is last.

Manoj Tulsian: We as organized player we already have licenses. So for us it is not going to make a major difference, yes except in the some of the categories where we were not putting the BIS mark there also we will start putting the BIS mark. It is a cost, but it is very miniscule compared to the overall the turnover of the business and it is different for different grades also of standards. So it is very difficult to quantify it that way.

Sneha: By this what I wanted to understand will it be difficult for smaller players to get their license or for exporting players to get the license or is it not the cost impact, it is time and effort or changes in the process which is more of an impact.

Sanidhya Mittal: I do not see the smaller players having a challenge of not getting the license to be honest. I think in India everybody will get the license. As far as foreign players are concerned, it is time consuming and it is a difficult process more than cost I feel because all the foreign players who are exporting material, they are not small players. So I do not think cost at all is the challenge for them.

Manoj Tulsian: See domestically, the quality what we produce in India, leave aside the organized players like us, even the unorganized players, what I have seen that most of the other places, those qualities are not as good as what we produce and consume in India. So what Sanidhya is trying to say is that yes, domestically anyone who follows the standard in this will be able to get the license. And I think the authorities will be more than willing to do that also because they also want that material which gets sold in this country everything should be compliant and should be a proper standard. Internationally, yes there can be a challenge for them to get it so fast.

Sneha: Understood Sir. Just one basic question since you asked this, I know I am just having odd questions, internationally also global players if I am not wrong these are the same players in the Indian market why is it that their quality would be largely different and could be very difficult for them to comply with our quality standards.

Manoj Tulsian: It is not question of difficulty, it is a question one their mind set because they also have to undergone their change, their economics then we do not know that in terms of cost and everything the competitiveness which today they might be finding for the Indian market and second as I said that if you look at intent paper whatever we have read it is very clear that one of the reasons of doing this is that the Make in India has given a boost so rest you understand.

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

Achal Lohade: Good evening team. Thank you for the opportunity. My question was with respect to the plywood volume growth. How do you look at it for FY2025 and 2026, I mean obviously it is 11% growth on Y-o-Y basis but how the momentum has been, is it picking up, is it the same as we speak.

Manoj Tulsian: So Achal I think for the journey what Greenply is travelling and type of things what we have done in the past two to three years our confidence in terms of volume growth has increased and if you really see in terms of our strength has also gone up further that is one of the prime reason as a part of that strategy is that you know we can get better traction both in terms of the premium and the mass category. Going forward also we are very much willing to make sure that we grow in this volume range 8 to 10%. Now this is something which as I keep mentioning is more of the growth within. It is an intrinsic growth irrespective whether the market is growing by that volume or not I am assuming as a company the type of efforts what we are taking and the reach and distribution what we have and the product stack up we should be able to grow in that range of 8 to 10% in terms of volume. From the industry perspective I think if you really look at it, I do not see anything negative happening now for the country in the next 5 to 10 years. Things are looking better only. I was just looking at some residential house sell data, first time in H2 of last year I am sure you guys have also looked at that report. First time it has happened that in H2 of last year the premium sales of housing is much more than the mid level. It has crossed that level so these are very encouraging sign of course they define the premium level is anything above 1 Crores as the ticket size so these are very encouraging signs and the housing sales trend also is growing. Last year also it has grown by around 5 to 6%, the previous also it grew so these are all encouraging signs and over and above that if the GST rationalization takes place which I feel that after this elections whosoever the government comes there is a likely chance to curb the unorganized market and to improve compliance in this. There will be a level of GST rationalization and if that happens then for sure this type of a growth in plywood looks very much feasible 8 to 10%.

Achal Lohade: Understood would you be able to talk about what is the mix we have in terms of the premium, mid, and the low end.

Manoj Tulsian: So in terms of the volume premium is almost similar like the last quarter we are close around 43% and the mid value is around 57 %.

Achal Lohade: In terms of volume and in terms of value Sir.

Manoj Tulsian: Value is 56, 44.

Achal Lohade: This is for third quarter right.

Manoj Tulsian: Yes and it was very similar for the second quarter also. I mean the same number for the second quarter.

Achal Lohade: Understood another question I had in mind is with respect to the timber prices for the plywood business can you help us understand how that has changed on a Y-o-Y as well as Q-o-Q basis what is the price I mean for the third quarter and the change.

Manoj Tulsian: See timber prices this year again has only gone up and if I recall from the beginning of the year till date there would be almost maybe 8 to 10% of increase in the prices. We try to do our best to see that you know how we are able to cut it down by trying to source material not only domestically but even now internationally so we have been importing material also to try and see that how the costs are under control to the extent possible because on the sales side I have seen that the elasticity is very high and this year if you really see on the plywood business, we are not seeing anyone taking any major price increase and that is one of the reason also that you have seen that the margins overall are slightly under pressure for most of the players going forward also next 12 to 15 months from here on also it looks like that the prices will remain in this zone it can slightly move up also it may slightly come down also but would be in this range and then in FY2026 we are hoping and expecting now that the supply side will improve and the prices may come down to some extent.

Achal Lohade: So what kind of margins one should look at I mean on a reported basis I know there is a ESOP charge, but on a reported basis how do we see the plywood EBITDA margins for next two years Sir.

Manoj Tulsian: See I think we are near 8% level plus or minus 0.2-0.3% because of the ESOP charges. See we can only improve from here. I can only tell you maybe half a percent drop in the next 6 months of this but I mostly see that from here at this level from this levels we have all the chances only to improve on our margin profile. See our marketing spend also we have slight increased and I am not disturbed at all despite slightly being a pressure on the margin front. We have not reduced that because that is a part of our strategy. The company on the plywood business is almost nearing around 2,000 Crores or plus by next year and this was high time that after doing so much of our internal corrections we needed to up our investments on the brand equity also because as of today we are still the leader in the premium category and that is one category in our case which has not been growing you all know that so we still have all our efforts there. Of course in the mid segment we have been growing so overall growth we are able to get but we also need to work to see that how we are able to grow our premium category if that happens then clearly you will see upswing in the margin.

Achal Lohade: Got it sorry just a clarification Sir. With respect to the mix you talked about 2Q and 3Q FY2024 can you help us with the 3Q FY2023 mix if you have it.

Manoj Tulsian: 3Q FY2023 on volume basis premium was 49 so the balance is your mid 51 and value is 61 premium and 39 mid.

Achal Lohade: What it means is that the premium has actually declined and the entire growth is driven by the mid.

Manoj Tulsian: Absolutely so the premium is almost stagnant and the growth whatever has happened in the last one year is happened in the mid value segment.

Achal Lohade: You think this is for the industry also premium has declined or you think it is more to do with our own strategy and we will be able to recover that.

Manoj Tulsian: No there is a significant pressure on the premium for the industry.. okay… and since we had a larger chunk of premium I feel that we have also seen the pressure on our margin but as I clearly mentioned that one we are taking all our efforts to see that how we are able to improve this and grow, maybe the company may grow at 11-12%, the premium if it grows at 5-6% also within the same you will see that the margin starts improving further on account of this also. It is an effort which we have to take but yes in the industry today there is clearly a challenge. See what has happened in the last three years what we look at the price points have moved up. The sweet spot today in the industry looks somewhere around Rs.100 and 110 and most of our premium products is from Rs.120 and plus so every such Rs.10 or 20 is making a difference and this is all resultant of the continuous pressure on the cost prices in the last three years on timber so the other thing which can also happen as I said in FY2026 when you see that the raw material crisis starts coming down and maybe there would be some level of correction for sure in this industry on the price side, you will see my premium picking up automatically also so one the trust which we are trying to build upon in terms of our marketing activity in terms of distribution in terms as E-0 as a property, zero emission, carb certified product and second maybe from the market side if the raw material cost starts coming down then also you will see better traction again happening in the premium site.

Achal Lohade: Understood just one clarification with respect to Gabon how much have we actually invested in the form of equity till date and against this 51% stake what is the consideration we are getting sorry I missed that detail in the press release if there was any.

Manoj Tulsian: So the enterprise value is somewhere around 250 odd Crores and we have been able to do the transaction somewhere at around 265 odd Crores. The equity portion in this was only to the tune of around 30 Crores, 23 Crores was the equity for our 51% we are getting somewhere around 15 Crores.

Nitin Kalani: Capital employed was 248 Crores. As on 31st December the equity value was 18.2 Crores in the books.

Manoj Tulsian: Are you able to hear him.

Achal Lohade: But Nitin because of the losses this would have got reduced to 18.2 right.

Nitin Kalani: This is the net value so the net value after consolidating the losses till quarter 3, 31st December.

Achal Lohade: So actually investment would be more than that right.

Nitin Kalani: No that may not be true because first three years we made profits in Gabon if you really see I think 2016 or 2015 we invested basically and first three years we made profit, three or four years we made profit. Only in financial year 2021-2022 onwards we made losses. Initial losses were very small so that got offset by the profits which we made in earlier years.

Manoj Tulsian: We have not lost anything from the equity value that much I remember.

Achal Lohade: What was the line last Nitin I could not hear that.

Nitin Kalani: The shared capital was about 2.72 million we had invested so far.

Manoj Tulsian: And 2.72 was invested long back.

Nitin Kalani: Long back at the exchange rate of Rs.66 rupees basically so net investment was only 18.2 and there was a profit which got eroded essentially over the last two to three years.

Manoj Tulsian: Understood and Rs.18 Crores of investments how much is the?

Nitin Kalani: We have sold it at full value of about Rs.29 Crores now.

Manoj Tulsian: Okay so now let me give you the numbers. The equity value which we had invested was Rs.18 Crores and the transaction has happened on the equity value side only leave aside the debt side at around Rs.29 Crores.

Achal Lohade: Understood. I think this is very, very helpful. Thank you so much and wish you all the best Sir.

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

Keshav Lahoti: Sir congratulations on healthy ramp up of MDF plant? Just wanted to understand how is the distribution network on MDF side? What sort of network you have right now and where you want to reach and how much is the common distribution between MDF and ply?

Sanidhya Mittal: So I think the first question was the current market split so currently we are doing, most of our business like almost close to 40% these are approximate numbers, 35% maybe 35% to 40% in West, around 25% to 30% in North and the balance in pockets like Northeast, East and little bit in South. Also being in Gujarat we have a huge advantage in the western markets in terms of the smaller deliveries and in terms of the better supplies for the channel so that is giving us a huge edge and also being in Gujarat with a great infrastructure, we are being able to send material to South India now via sea, so even domestic dispatches are happening via containers and the freights are very low so that is giving us a huge advantage.

Keshav Lahoti: Yes so I am saying your timber prices per kg is Rs.6.5 per kg for this quarter while in North the industry leaders have reported its number that is 15% lower timber prices? South is way below your timber prices so how you have a right to win in North and South market taken like West you will clearly have an upper edge over other payers?

Sanidhya Mittal: So I think this price what we quoted is also actually eucalyptus prices and the way other players are now slightly mixing other species we are also open to that so my blended rates are also pretty much at par with any North India player so Nitin can share the exact number also of our blended cost of timber for Q3.

Keshav Lahoti: Okay got it and how much would be the transportation cost in this?

Sanidhya Mittal: Whatever we have quoted is the net cost delivered cost to Gujarat to our plant landed cost at door.

Manoj Tulsian: Are you saying on the buying side or the selling side.

Keshav Lahoti: I am saying on the buying side so earlier you said you take the price at Rs.6.5?

Sanidhya Mittal: Rs.6.5 is all inclusive.

Keshav Lahoti: So all inclusive how much would be the transportation cost broadly in this?

Sanidhya Mittal: It depends because at this moment like most maybe say 50% to 60% of our raw material is being sourced from Gujarat itself. Maybe 5% to 10% from neighboring states and balance from North as well as South so this is a blended cost Rs.6.5 so it is very difficult to give you freight so in Gujarat the freight is very low and the rates are around like maybe Rs.5900 to Rs.6000. In South you know what the rates are plus transportation from there to us.

Manoj Tulsian: We actually even in our system we track it as the cost of acquisition so maybe we will have to find that out but we just look at our final landed cost whichever markets we go to buy. We just see that is our final landed cost delivered at our plant.

Sanidhya Mittal: And not only do we get like outward from Gujarat for the market we dispatch the material but we also get incoming via ships so our cost from South to Gujarat is also very viable because of the Gujarat ports being so efficient and the infrastructure development being so good.

Keshav Lahoti: Okay understood. Got it and how much is your OEM mix right now and in MDF everything is sold under Greenply brand?

Sanidhya Mittal: Absolutely we sell everything under Greenply brand and the OEM mix is hardly 13% to 14% of our total sales and we intend to keep it under 15% because Greenply even in the plywood segment our focus is always value added so we want to focus on value added products, we want to focus on the trade network, we want to focus on leveraging our brand value and distribution strength and we are just sitting with one line so we have to learn to sell this capacity at better prices and not keep running to OEMs.

Keshav Lahoti: Got it. Last question from my side, any guidance on FY2025 for volume and margin and lastly as you highlighted because of value added mix your margin has been on the lower side is it possible to quantify the loss because of value added ramp up?

Sanidhya Mittal: I think at this moment it will be very difficult to quantify it exactly because on three grounds. Rs.3 Crores incremental marketing spend, value added startup losses and the higher timber cost compared to the previous quarter so on these three grounds the costs were higher. At this moment I cannot give you the exact number but you can later get in touch with Mr. Nitin Kalani he will definitely give you the numbers.

Manoj Tulsian: This is a very initial stage okay. I am saying for the MDF and there are lot of efficiency build up which will happen. The first thing for us was to make sure that we are able to ramp up and do the distribution and so now from this quarter there is an improved focus now to look at the efficiencies also so once that is built up next year for sure you will be able to see on a similar volume also better margins and in any case our volumes will be much higher than this in the coming year.

Keshav Lahoti: So any guidance on for FY2025 for volume MDF side or ply?

Sanidhya Mittal: I think it is too early. We will share it maybe with the annual results, we will be in a better position to tell you and it also depends how much this BIS effects. This BIS effects I think volumes can be substantially higher.

Keshav Lahoti: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Utkarsh Nopany from BOB Capital. Please go ahead.

Utkarsh Nopany: Good evening Sir. Sir first I just need a clarification for your furniture fittings business? There was some news report that our JV partner Samet was already having a partnership with another player called Dorset in 2019 so what is the status of that partnership at present?

Manoj Tulsian: No it is no more there and that is the reason that Samet found this to be a good market. They know that India is the place. Second at that point in time there was arrangement with Dorset was only of supply and distribution and when we met them and we discussed with them we also were very clear that we cannot make a brand if you are just going to look at distribution or to look at us as a distribution agent in India we are not at all interested. That is how the whole thing and they are also having a mindset that yes if they get a good partner will up the facility here and become a serious player here over a larger period of time so that arrangement is already null and void long back.

Utkarsh Nopany: Okay and Sir for your plywood business Sir can you give some sense what is the reason for sharp decline in our JV plywood volume for the past three consecutive quarter and we see that our traded volume has gone up substantially and what kind of a sales mix we would like to have going forward of own JV and traded volume?

Manoj Tulsian: So two things when you look at the JV volume going down. One I think the cost parameters were very high. They were not able to stabilize the production at the prices what either we can own manufacture or we can get it from other trade partners. We tried the best but I think there was surely a mindset issue and that is where their volumes have got hit and yes this is the question right.

Utkarsh Nopany: Yes and how come like we have increased our traded volume when we are not able to source the plywood at a reasonable cost from our JV partners how we are able to source at a reasonable price from other players?

Manoj Tulsian: That is precisely the question which we raised to our JV partners that if the other sourcing partners are able to give us at this price why is that you are not able to stabilize your cost side okay. This was the entire reason okay.

Utkarsh Nopany: Okay and whether the current mix is likely to be maintained going forward or there is going to be a shift in the mix?

Manoj Tulsian: Well it is very difficult to say this. It all depends on the volume growth. It all depends on the geographies because one, we have our own multiple facilities. Second the traded partners are also spread out so it all depends on which area, which geography, and which product line we are growing and accordingly these numbers keep on changing.

Utkarsh Nopany: Okay and Sir lastly on MDF can you give some sense so that what would be the share of value added product say going forward in FY2025 and FY2026 which we are targeting?

Sanidhya Mittal: I mean ideally, we would want to set a very high number but I think we should first achieve and then boost about it so I mean our hope is that with this 50% to 60% and maybe 70% also but I think we should not commit on any such number. We should first perform and then come out and speak about it.

Utkarsh Nopany: Okay thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Kushagra from Old Bridge Asset Management. Please go ahead.

Kushagra: Thank you for the opportunity and congrats on good set of numbers. A few questions. One is on your capital allocation so now this Rs.237 Crores of debt is out of your console balance sheet and the risk part is also reduced so net debt is going to be sub Rs.500 Crores and cash generation is also going to be strong so what are you planning towards capital allocation let us say between debt repayment future capacity expansions and M&A what are your preferences any color on that?

Manoj Tulsian: So see at this point of time what we are looking at is one stabilizing the MDF business ramp up and see the type of growth and volumes which we need to do there so there is a lot of focus. Plywood itself is one business where we see traction going forward because of both internal and external reasons and third we have also taken this JV Investments of Samet so the hardware business also needs to be grown going forward so I think next 12 months for us clearly is a time when we need to work on all these three businesses, stabilize them, try and work on improving the margins. Yes there can be some amount of capex other than what Sanidhya just said for MDF which for sure is planned. The other apexes can be some line balancing or maybe a few small investments here or there but more or less we believe that for the next 12 months we should only concentrate on these three line of businesses and make them stable, make them grow and yes that will also help our debt equity to improve further and by the time we will have our next level of plan for growth.

Kushagra: All right so majority of it will be then towards stabilizing and debt repayments for next 12 to 15 months?

ManojTulsian: Yes.

Kushagra: All right. The second question is really on MDF so how much you can play around with the utilization levels given it is a continuous manufacturing and your already reported number is 70% in Q3 so I believe that because of the continuous manufacturing switching off and on is not very easy so you will continue to ramp it up but between let us say the volumes and the pricing what would be your preferences considering you are ramping up the capacity? The others are also ramping up the capacity in the domestic market so let us say if you have to take a call somewhere in middle of a FY2025 between volumes and pricing how are you thinking about it for the MDF segment yes?

Manoj Tulsian: See in MDF pricing is a determination of a market factor okay and we are no different. The only way what Sanidhya has said we are looking to improve our margins and realization by trying to sell more and more of value added products and ramp up for sure is important and that is what is the whole concentration at the given capacity plus he also mentioned to someone else on the call that next year we will be working on the line extension also so one it will take the whole capacity to 1000 CBM and for next year when we do our full year numbers yes doing around for 50,000 CBM per quarter looks to be possible because this year now we are close to around 40,000 to 41,000 so doing around 50,000 CBM per quarter seems to be possible from a production side also and then the subsequent year I will have another level of ramp up of growth because by the time the line will be extended to a capacity of 1000 CBM so we can continuously see a road map of next two years of growth from the existing business. I do not see any challenge. Two years for sure and maybe even three years and as I said that after 12 months we will again start looking at our next investment cycles and depending on the market situations and depending on the product lines where we need to invest and how we need to grow after FY2026. Up to FY2026 we have absolutely no challenge of even growing at around 20% plus for the next two years.

Kushagra: All right. That is quite clear. Last question quick one. Now with utilizations above 70% where is your cost per CBM for non-value added product is settling for the MDF segment just a broad number will be helpful?

Sanidhya Mittal: I think right now, I think we still need to work a lot on efficiencies. We are still a very new MDF player. The line is still hardly seven to eight months old after we have announced commercial production so I think a fair evaluation could happen sometime in Q1 where we start reaching a desired, even consumables. There are some consumables which we are consuming extra. There are some efficiency losses so all these things will start stabilizing Q1 onwards if we see that cost I think there will be a fair evaluation.

Kushagra: Sure. Thank you and all the best.

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

Ritesh Shah: Sir just two questions. One is Sir you indicated that we have different sizing of our products from the line that we have? This is something different versus what we see for imports?

Manoj Tulsian: Sorry come again different.

Ritesh Shah: Sir I think you indicated that the sizing of MDF what we have from the line that we have something different from the imports can you just quantify basically what thicknesses we have and where do we see most of the imports from a thickness standpoint?

Sanidhya Mittal: We mentioned in the call saying that the import product is much inferior compared to the products which are being sold in India and the product usage in India is totally different and the only unique size we have compared to anybody else is a 1.5 mm thickness which others do not have. Our line has capabilities to produce 1.5 mm thickness and we mentioned in the call that the import material is much inferior. It is much lower density and to focus on our brand and to build our brand we do not want to sell cheaper products. We do not want to go to OEM. We do not want to make those kinds of sales. We want to focus more on trade and grow our trade network and brand.

Ritesh Shah: So most of our sales volumes will be 1.5 mm thickness would that be a fair thing?

Sanidhya Mittal: Not at all hardly not even 1% to 2% of the volume. That is just a unique product that we have and others do not have. Once others start putting up the new generation line probably they will also be able to make it.

Manoj Tulsian: That is just a machine capability at this point of time.

Ritesh Shah: Okay and other thing, I think there was an earlier question? We did give numbers on both volume as well as value terms? Specifically on the ex premium category volumes have increased so what is the motivation over here? Is it like we acknowledge the market demands more of ex premium and that is where we would like to move to or if I have to put it the other way around if we had to spend say Rs.100 would you focus more on better economy range as compared to premium? I am just trying to understand the thought process?

Manoj Tulsian: Look today if you really see the good part in our plywood business is we have capability to change the product mix at any point of time. From a production side there are no challenges. These are all feature based products okay so basis the demand we can always produce and sell whether it is premium or mass. Yes our intent was that premium has always been something which was the forte of Greenply, but as I said in the last two to three years because of so much of cost increase and the pass on which has happened the product prices have moved to a level where we see, I mean that is my assumption and that is what I have seen even the other players talking about that everyone whatever little they were selling in the premium segment has taken a beating so the market growth yes if the price point remains at this level seems to be in the mid and mass segment only.

Ritesh Shah: Sure that is helpful and just last question? Can you put some numbers on the furniture hardware JV incremental investments what sort of ROC do we look at and any numbers on top line and margins?

Manoj Tulsian: Okay so I can give you very ballpark numbers and I will request that do not hold us on these numbers because we will be doing our P&L in detail after some time okay. I can give you some very broad numbers. In terms of the total capex what we have seen there will be capex in phases but what we have seen is we have an initial plan of investing somewhere around Rs.225 Crores to Rs.250 Crores and in which there will be an equity component. I am talking of the JV as a whole out of which the equity component would be somewhere around Rs.80 Crores. Out of that Rs.80 Crores, Rs.40 Crores is our share and Rs.40 Crores is Samet. In that Rs.40 Crores Rs.10 Crores we had invested in Q3 at equity and Rs.15 Crores we have put during this quarter. I think from the equity side we do not need to put any further money during this quarter. The balance Rs.15 Crores mostly will get invested in the coming financial year so that completes our equity side of investments. I have told you the total approximately capex but these numbers can change. Second thing in terms of the top line, we are assuming that if everything goes well this business can be scaled to approximately around Rs.300 Crores in three to four operational years which at Rs.300 Crores on today's pricing and today's everything, we look at a high EBITDA margin of 20% plus in this business.

Ritesh Shah: And working capital investment over here would be how much Sir?

Manoj Tulsian: Yes around a month to 45 days.

Ritesh Shah: Okay this is quite helpful. Thank you so much. All the very best.

Moderator: Thank you. The next question is from the line of Manan Shah from Electrum PMS. Please go ahead.

Manan Shah: I had a couple of questions regarding MDF facility so I know it is too early but can we get any sustainable EBITDA margin number percentage?

Sanidhya Mittal: I think you know industries are operating at anything between 18% and 21% and by Q1 we should also be pretty much in that level and at those levels and comparable to anybody who has a plant in North. South will still continue to have a slight advantage.

Manan Shah: Okay and since our peers everyone is doing capex in this facility so do we see any over supply or margin pressure because of that?

Sanidhya Mittal: I feel yes it can. It depends what happens with this BIS. Do the foreign players get licenses? If they do not get licenses a lot will depend on that and I feel this is like a double edge sword. When you do more capex you have more capacity to sell. You have run to OEM and probably sell cheap. When you have one plant I think we should only focus on trade and on selling more value products while as if I would have two or three lines at this moment, I would have to probably drop my prices further and change my strategy further to enter OEMs.

Manoj Tulsian: You have to understand that all credit also goes to the brand Greenply okay which has a very strong equity and because of the same also the ramp up has been good, so one is on the production side and the other is on the sale side also that we have been able to generate these type of volumes. There is a lot of respect for the brand and because of that creating this relationship in trade and entering into trade has been slightly maybe easier than what we would have assumed and we thank that entire trade fraternity for showing so much of faith on us all along and as Sanidhya is saying the whole idea is that since we have one plant only, we will try to see and maximize that this equity value what we have because of this Greenply association and the brand also selling under Greenply banner we will try to see that how we are able to maximize on the value added product. I am sure all similar companies also must be talking of the same, but we get this clear slight edge because of the Greenply brand and the association what we have with trade for more than three decades.

Manan Shah: Okay that was helpful and one last question so this is on a macro level so do we see anything from China, like China dumping something or MDF related?

Sanidhya Mittal: China is never an MDF exporter so they are one of the largest manufacturers of MDF in the world but they export finished goods. I have never heard MDF coming in from China. Whatever disturbance happens because of imports it is mainly Thailand, Vietnam and countries like that.

Manan Shah: Okay thank you so much.

Moderator: Thank you. The next question is from the line of Arun Baid from ICICI Securities. Please go ahead.

Arun Baid: There are a few questions actually. On your fitting business which will be the first year of revenues we will see from that business?

Manoj Tulsian: Which one.

Arun Baid: Fitting business, the furniture fitting business which we getting into hardware business?

Manoj Tulsian: You are talking of the hardware business Arun.

Arun Baid: Yes.

Manoj Tulsian: Coming year FY2025.

Arun Baid: So the plant will be operational by when which quarter?

Manoj Tulsian: The plants mostly will be operational by Q1.

Arun Baid: I am sure you must have a figure there in mind roughly how much in the first year we are looking for revenue wise in that business roughly?

Manoj Tulsian: Well this is totally a new business for us okay and at this point of time we were totally concentrating on first again setting up the facility. That is where the whole discussion is also happening between us and Samet because you all know that we just conceptualized this sometime in Q2 and the construction started in Q3 so the whole focus right now is again to see that how fast we are able to bring up this plant. Our discussion on sales volume realization, distribution and everything is now going to happen. Give us couple of months or maybe by the next call we will be able to give you better visibility on the same.

Arun Baid: Sure and second thing is with regards to the MDF distribution can you just let us know how many distributors and dealers we have right now and how should we look at over the next 12 to 18 months?

Sanidhya Mittal: So right now our distributor dealer base in MDF direct distributor dealer base is 350 plus and we definitely look at doubling this number by the next financial year end.

Arun Baid: In that number would be sufficient for us to utilize this 1000 CBM per day right I am sure?

Sanidhya Mittal: Absolutely. I think it will be more than sufficient. If we are able to make 700 channel partners we probably do not need to run to OEM at all.

Moderator: Thank you. The next question is from the line of Tushar Raghatate from Kamayakya Wealth Management. Please go ahead.

Tushar Raghatate: Good afternoon Sir and thank you for the opportunity. Congratulations for the good performance in the MDF business. Sir my question is more on the industry specific? I could see it in realization terms per CBM? We ranked in the third place, the first being Century, second being your group company and third we and fourth company in Southern India so I just want to understand like on the realization front where do we look at? We are just near to the second player near to I think 30,000 CBM so in order to add the value added and to increase the CBM realization so what is our focus going forward?

Sanidhya Mittal: So see on a long run definitely the focus is to keep adding value and to keep taking our per CBM realization higher but in the short run everybody is trying to sell their capacity so in the short run there might be some changes but on a long run when you see us over the next four to six quarters definitely you will see an upward trend where we will try to pump more and more value added and drive our per CBM realizations higher.

Tushar Raghatate: Fair enough and so in your peer concall they mentioned that the BIS will have more effect on the Southern and Western part because the more imported MDF was on these ports so do you see that the effect of BIS will be major on the western region where you cater to?

Sanidhya Mittal: Yes I think that is quite logical. The import is definitely coming in mainly in West and South so obviously the players in West and South will gain more and the good part is that they have a monopoly kind of a situation in West where we are the only player present so our deliveries, the facility the customer gets and the service the customer gets from us invest is unparallel to anybody else.

Tushar Raghatate: Okay Sir so see there is a structural change in your business like from the from your ply business you are moving towards the high margin MDF and also you are adding the hardware business so what for the midterm how do you see maybe FY2025 and FY2026 in terms of margin how do you see your business? Till what margin your business can achieve?

Manoj Tulsian: See our margins from here the blended margins can only be better because one the growth in MDF and even the new business because the new business is an add on we will always be higher than the growth which will happen in plywood business mostly the way I look at it which means that my blended margin is only going to continuously improve from here because the other two both the hardware business as I said that is a business for sure which will start making more than 20% EBITDA and even MDF business is something which will sustain at around 20% or plus whereas plywood still remains maybe at the range of 10% or something so the blended margin will only continue to improve from here because the growth will be higher on those two business lines.

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

Hrishikesh Bhagat: Good evening. Thank you for the opportunity so the question is so when I look at your MDF unitary EBITDA per CBM and probably the number reported by one of your peers also for their southern market or their unitary EBITDA more specifically on the Southern side? Now where the current profitability lies clearly even if I look at your capital employed in this business it is not a respectable ROC that we are accruing currently? Even if I assume that utilization moves up probably we will see some improvement but clearly at this profitability there is not say a respectable ROC that industry will accrue so do you feel that very likely that supply could abate considering where the profitability lies for the industry and the current because of this imports and everything?

Sanidhya Mittal: I think this is really too early to judge. We are hardly eight to nine months into this business and we are just reporting the second full quarter results so I think this is not fair at this moment to judge the ROC. I think a fair judgment should start from Q1 next FY where we should be at par in terms of our EBITDA with the North India players and then we will start making decent ROCs.

Manoj Tulsian: We have been mentioning this since last two quarters, please look at our numbers from next year. I can tell you that there will be substantial improvements which will happen in the margin profile because we can see that we are not yet. We have ramped up the production but in terms of cost efficiencies there is way ahead possibilities on which we need to work so the margins will be substantially different from what you are seeing at this point of time.

Hrishikesh Bhagat: Sir I get your point. I am asking more from the industry standpoint because let us say at 70% utilization? I do agree that probably cost efficiency will play but say for any new entrant does it make any sense for the incremental capacity? I think because at 70% if 5,000 per CBM is also industry is not able to generate then clearly I do not think so that the industry is really that attractive despite the growth so that is what the question is? Do you feel that industry supply could get pushed back?

Sanidhya Mittal: I think this scenario in the MDF space keeps changing. Now for example from March 1, actually because of BIS next six months there is nil imports or the imports are close to nil the EBITDAs can really change. After COVID when imports are not there, the EBITDAs were at another level so I think it will really depend and people who are in the panel space to continue the growth and to continue getting their market share will probably keep investing because this is definitely a future line of product which is here to stay for the long run.

Manoj Tulsian: Look and one has to clearly understand that if in case the industry level margins drops to around as you are saying around Rs.5000 to Rs.5500 per CBM okay then you will again see that there is a lot of resistance in the industries to build up new capacity and also not see new players coming so again you will see maybe yes so there may be six months to 12 months period and then again you see the numbers going up and this is a hypothetical case but the other way which I have to give on this is the way the MDF business is growing in this country okay. I for sure see that there is a place at this point of time for whatever capacities have been coming will get consumed and with some level of support from the government like the BIS standards and other things for sure we will continue. I mean the industry will continue to make a decent level of margin. I also mentioned earlier that those 30% margins and what the industry made were like dream. That is not a margin because the moment you are at that level of margin you will see so many new players trying to enter and that is when you will have over situation of over capacity for some time and then you will see margin stabilizing around 20% to 22%. I mean if your question is that can somebody see again a consistent margin of 30% to 35%.

Hrishikesh Bhagat: My question is more related to potential supply? Can it get deferred because at least it has been fairly in the sense last six months where we have seen the margins at least for the coastal based player like West or South has been significantly lower where probably the returns are below cost of capital so from that standpoint probably when I look at the South based MDF plants are probably and for us Western plant also, so that the question is more from that perspective that even at 70% utilization if there is such a big challenge can it then push back the potential supply that is likely from probably non wood panel player? Is it likely a scenario that could work out?

Manoj Tulsian: It is anyone's guess but even if it is there it will be there for a temporary phase and then again you will see things again getting better. My sense is that there are growths which are happening. There are new OEMs which is coming. The furniture market is developing. Like in Tamil Nadu there is a furniture market which is coming with lot new incentives so the demand will also go up and once the demand is there then the capacity utilization for everyone at a decent price and decent EBITDA will be there in this business.

Hrishikesh Bhagat: Sure thank you.

Moderator: Thank you. As that was the last question, I would now hand the conference over to Mr. Sanidhya for 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 out to us. Thanks again and goodbye.

Moderator: Thank you so much. On behalf of Asian Market Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.