GPIL/2023-2024
February 05, 2024

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400001 **Scrip Code: 542857**	National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot no. C/1, G Block Bandra – Kurla Complex , Bandra (E), Mumbai – 400051 **Symbol: GREENPANEL**

Dear Sirs,

Sub: Transcripts of conference call held on February 01, 2024.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of a conference call for investors and analysts held on February 01, 2024, at 2.00 P.M, on the Unaudited Financial Results of the Company for the quarter and nine months December 31, 2023.

Please take the above on records.

Thanking you,

Yours Faithfully,

For Greenpanel Industries Limited

LAWKUSH PRASAD Digitally signed by LAWKUSH PRASAD Date: 2024.02.05 17:09:59 +05'30'

(Lawkush Prasad)
Company Secretary & VP - Legal

Greenpanel Industries Limited

Q3 & 9M FY'24 Earnings Conference Call Transcript
February 01, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Greenpanel Industries Limited's Q3 & 9M FY24 Earnings Conference Call.

I hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: Good day everyone and thank you for joining us on the Greenpanel Industries Limited's Q3 & Nine Months FY24 Conference Call.

We have with us today, Mr. Shobhan Mittal, the Managing Director, Mr. V. Venkatramani, the CFO.

Before we begin, I would like to state that some statements made in today's discussions 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.

I would now like to invite Mr. Shobhan Mittal to begin the proceedings of the call. Over to you, sir.

Shobhan Mittal: Good afternoon, everyone and thank you for joining us to discuss Greenpanel's Operating and Financial Performance for Q3 FY24.

MDF domestic sales volumes grew by 4%, while export volumes fell by 15%. Overall, India's volumes were flat at 118,301 cubic meters compared to 118,218 cubic meters in the corresponding quarter. MDF's domestic realizations were lower by 6.7% at Rs.31,593 per cubic meter, while realizations in exports were higher by 2.2% at Rs.19,053 per cubic meter.

The fall in MDF domestic realization was due to introduction of new products for the OEM segment. This contributed 28,025 cubic meters in volume terms and Rs.62.65 crore in value terms, and an average realization of Rs.22,355 per cubic meter.

MDF EBITDA margin at 19.6% were impacted by increase in brand spends at 2.2% of sales compared to 1% in the year-on-year quarter, higher wood prices and increased domestic competition.

Plywood volumes were lower by 22.6% and operating margins at negative 4.1% were impacted by lower volumes and increase in raw material cost. Plywood realizations at Rs.249 per square meter were lower by 13.8% year-on-year. This was due to lower volumes in the decorative veneers business. We have restructured our plywood sales team to recover market share and to reach optimum capacity which we foresee in the next few quarters.

Post-tax profits for the quarter was lower at 7.8% at Rs.34.6 crore as compared to Rs.37.5 crore in Q3 FY23, for reasons mentioned earlier and currency losses of Rs.8.44 crore. Net working capital at 25 days has shown an increase of two days year-on-year.

We have chosen to be disciplined with our credit terms, which obviously has some impact on our sales since competition is offering attractive credit terms.

Net debt stands at negative Rs.176 crore as on 31st December 2023. We have prepaid borrowings of €3.59 million which equates to Rs.32.7 crore during the quarter. We paid Rs.24 crore from internal accruals towards MDF expansion project during Q3FY24 aggregating to Rs.115 crore till date. Apart from this, spends from borrowings aggregate to Rs.146 crore till date. Work is progressing in the expansion project, and we estimate commercial production in Q3 FY25.

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

V. Venkatramani: Good afternoon, everyone and thank you for joining us to discuss the Q3 FY24 Financial Performance of Greenpanel Industries.

Net sales during the quarter were Rs.384.99 crore compared to Rs.419.09 crore during the year-on-year period. MDF sales fell by 4.1% at Rs.346.62 crore and contributed 90% of the top line. MDF domestic volumes grew by 4% while export volumes fell by 15%. Overall volumes were 1,18,301 cubic meters compared to 1,18,218 cubic meters in the year-on-year quarter. MDF domestic revenues were Rs.305.41 crore, while exports contributed Rs.41.21 crore. Domestic realizations were lower by 6.7% year-on-year at Rs.31,593 per cubic meter, while export realizations are higher by 2.2% at Rs.19,053 per cubic meter. Blended MDF realizations were lower by 4.2% at Rs.29,300 per cubic meter. Uttarakhand MDF operated at 82% and AP Plant operated at 70% with blended capacity utilization at 74%.

Plywood sales saw a degrowth of 33.3% at Rs.38.37 crore. Plywood sales volumes were lower by 22.6% at 1.54 million square meters and the unit operated at 58% during the quarter. Plywood sales realizations were lower by 13.8% at Rs.249 per square meter, due to mix change, as mentioned earlier by Mr. Mittal. Plywood sales realizations, excluding decorative veneers, were up by 0.7% year-on-year at Rs.248 per square meter.

In Q3FY24, gross margin fell by 212 basis points year-on-year at 56.1%. EBITDA margins were lower by 577 basis points at 17.3%. EBITDA in value terms stood at Rs.66.42 crore and PAT at Rs.34.6 crore due to reasons mentioned earlier.

I will now update you on the performance details for the nine months FY24. Net sales degrew by 12.7% at Rs.1,167.84 crore. MDF sales were lower by 9.3% at Rs.1,041.30 crore, while plywood sales were lower by 33.2% at Rs.126.54 crore.

Gross margins were down by 295 basis points at 56.6%. Gross margin in value terms was down by 17% at Rs.660.51 crore. EBITDA margin was lower by 817 basis points at 18.1%. EBITDA in value terms fell by 39.9% at Rs.211.35 crore. Post-tax profits were lower by 39.8% at Rs.112.88 crore.

Overall, MDF sales volumes were down by 3% at 3,57,715 cubic meters with blended capacity utilization of the two plants at 75% compared to 77% in the year-on-year period.

Dispatches for plywood were lower by 27% at 4.76 million square meters, with capacity utilizations at 57% compared to 75% in the corresponding period.

Gross debt (including borrowings of Rs.146 crores for expansion project) to equity now stands at 0.18 as at 31st December 2023 compared to 0.17 as on 31st December 2022.

Net debt as on 31st December 2023 stood at negative Rs.176 crore compared to negative Rs.145 crore as on 31st December 2022.

That concludes my presentation. Please start the Q&A session. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: Firstly, want to understand, last time in concall you have highlighted October domestic volume growth was 9% year-on-year, but as a quarter the growth is 4%. So, it means that sales have been slightly on lower side in November and December. And lastly, how are the trend now like Jan is also over?

V. Venkatramani: November was possibly impacted by the festival season although it was similar to last year. As far as the future is concerned, I think we will see volumes improving from this quarter onwards quarter-by-quarter. We expect to finish flat as far as domestic volumes are concerned on a yearly basis and possibly some degrowth on the export side. We have reduced exports to large buyers primarily because of the increase in costs on the raw materials side. But, we are continuing shipments to the smaller buyers where we are getting higher realizations and some positive contribution to the fixed cost.

Keshav Lahoti: I remember maybe a quarter or two back you said that export NSR will improve by 10% to 12% because whatever the shipment you have got, but hardly we have seen that getting played out in a number. So, should we expect better NSR for exporting in Q4 FY24?

V. Venkatramani: Yes, probably, we could see a marginal increase in export realizations. I don't think there's any possibility of reduction there. But, it's like I mentioned, we have stopped exports to the large format buyers, primarily because of a significant increase in raw material cost. While realizations might improve a bit, I think, volumes will be a constraint.

Keshav Lahoti: Now, BIS is getting implemented and secondly, due to the Red Sea issue, the ocean freight rates have also increased. So, what sort of impact you are seeing in MDF import?

V. Venkatramani: We have seen a minor reduction in import volumes. There could be two reasons for that. One, the volumes were very high in Q2FY24, where we saw a total of around 1,44,000 cubic meters being imported. Compared to that, Q3FY24 was around 93,000 cubic meters. So there's definitely be a significant fall, but that could possibly have happened because people wanted to store up inventories before the BIS came into implementation. So, that could also explain the lower imports which happened in Q3FY24. But yes, we are hopeful that once BIS is implemented, we will see a significant reduction in imports during the current quarter and the next financial year.

Keshav Lahoti: How has been the timber prices sequentially year-on-year for North and South?

V. Venkatramani: So, we have seen an increase of 2% for the north plant and 4% for the south plant sequentially. And as far as year-on-year is concerned, the increase has been 6% for the Northern plant and 40% for the South plant. And as far as the numbers are concerned, in Q3 last year, it was Rs.5.38 per Kg for the North plant, Rs.3.15 per Kg for the South plant, and in the current quarter it has been Rs.5.71 per Kg for the North plant and 4.44 for the South plant.

Moderator: We have the next question from the line of Sneha Talreja from Nuvama Wealth Finance Ltd. Please go ahead.

Sneha Talreja: We understand you have purposely reduced the share of exports, but how is the domestic demand scenario because we've not seen a great momentum in volumes either in domestic?

V. Venkatramani: The domestic market has been growing during the current year and we are quite satisfied as far as the demand conditions are satisfied. But, the fact is that imports took away a large share of the growth from domestic producers. So, we are hopeful that once the BIS is implemented, we'll see a reduction every month happening on the import side, and the benefits getting passed on to the domestic manufacturers.

Sneha Talreja: Second is on the margin front. Sir, you have revised your guidance last quarter downwards to 22% to '23%-odd. This quarter margins have come slightly below that number. Is there any one off, do you still expect margins over around 19% level?

V. Venkatramani: As far as the margins are concerned, a couple of factors can be attributed to that. One was the higher brand spend in the quarter, second was the increase in wood prices, and the third was significant increase in the volumes for the new product which we had introduced for the OEM segment. So, that's at a significantly lower margin as compared to our regular products. These factors had an impact on the margins. But, going forward, I think once we see the volumes moving towards the optimum level, we will also see a corresponding improvement in the margins.

Sneha Talreja: And is the timber prices already started declining?

V. Venkatramani: No, I don't think so. We are not expecting any significant reduction in wood prices during Q4 or even the next financial year, I think they would possibly start reducing from FY'26 only.

Sneha Talreja: Last is related to BIS norm. So, how confident are we in terms of implementation happening from Feb? Do you expect any delays around? And can import come back to the COVID levels, I would say, after implementation, what's your assessment on that?

Shobhan Mittal: So, implementation is certain to happen because it's already been passed, but what I would say is that there would be two elements of benefit for the domestic producer with the BIS implementation, there would be, I would say, short term relief in terms of import volumes being reduced, and then of course on account of compliance with BIS, it's a fairly tedious process for the foreign producers to get the registrations done and to comply and then also going forward to continue producing material which comply with the BIS norms, which would result in certain additional costs on account of their manufacturing even after they have gotten the registrations and compliance is done with the BIS norm. So, I won't say that it would come to pre-COVID levels where it was to that low levels, but it would definitely help us in curtailing imports coming into the country.

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

Utkarsh Nopany: My first question is that given that we have a pretty strong balance sheet, are we planning to enter into any new product category say over the next one year period?

V. Venkatramani: No, at the moment, we are not planning entry into any other products.

Utkarsh Nopany: My second question is that like if you can give us some sense that post Red Sea conflict whether there has been any increase in the ocean freight trade from Southeast Asian markets to India?

V. Venkatramani: Yes, there has been a marginal increase in ocean freight trade, but I think that's more due to reduction in availability of containers rather than directly related to the Red Sea conflict, because that's probably having more impact on imports coming in from Europe or US, which is not the case as far as the MDF is concerned.

Utkarsh Nopany: So, just wanted to understand on this point only, so whether the landed cost of imported MDF remains the same or it has gone up post conflict?

V. Venkatramani: It remains the same, there has been no increase.

Moderator: The next question is from the line of Yash Sonthalia from Buoyant Capital. Please go ahead.

Yash Sonthalia: So my first question is like our realizations in import is a way to lesser than domestic. So what is the different product we are selling? How we are able to make positive EBITDA margins?

V. Venkatramani: If you take the import, more than 90% of the import would be of the plain MDF category, primarily what we call the industrial or the interior category, and possibly about 5% to 10% would be pre-laminated MDF. Whereas if we look at our mix, there are four categories. Plain MDF contributes about. 82%, our pre-laminated MDF contributes about 17% and the balance 1% comes from flooring. Now, plain MDF is again broken up into four parts -- Industrial, Commercial, Exterior and Club. Here again, the mix is about 30% for industrial, about 32% for commercial, 17% for exterior and 21% for clubs. So, if we take the plain industrial MDF and what we call the value added products which are basically pre-laminated, flooring, exterior and club, the realizations of these value added products are approximately 50% higher as compared to the plain MDF. But the costs are also higher for the value added product. But even then, their margins are significantly higher as compared to the industrial or the commercial category. And since imports are majorly of the industrial or the commercial category, so their value add and margins are significantly lower.

Yash Sonthalia: A follow up on this like the products which we are exporting to other countries, are we able to make positive EBITDA on those products?

V. Venkatramani: No, at the moment we are not making a positive EBITDA. As long as our realizations are higher than the variable expenses, we are doing those exports because they are making a positive contribution to the fixed cost.

Yash Sonthalia: But where I'm confused is on the domestic side, we are making around 7,000, 8,000 EBITDA per CBM and we are exporting the products at 20,000 realizations. So how it is making sense for us and how much negative margin we are making?

V. Venkatramani: If we could sell the entire capacity in the domestic market, we won't be doing any exports at all, exports would be zero. But today, even after including exports, we are operating at around 75% capacity utilization. So, when you are not at optimum capacity utilization, it makes sense to do exports also. And today, the export markets are also disturbed because the countries which are exporting to India like Vietnam and Thailand are also doing large scale exports to the Middle East, which is our major export market. And so realizations and margins are depressed currently. But, as soon as imports start reducing, we will be able to improve our realization. So, it makes sense to continue in those markets for the time being, although we have reduced sales to larger buyers where the realizations are not making a positive contribution to the fixed cost. But we are still continuing with the smaller buyers.

Yash Sonthalia: A last follow up, like if we are exporting to the countries where other players are also exporting, then why aren't we able to compete with them other than different what the export in India and in UAE?

V. Venkatramani: The simple reason is that we are able to compete because we are matching prices there. So, our export realizations are similar to what the imported products cost in India. But if we try to compete with the imports on similar pricing in India, then our existing margins would also fall significantly.

Yash Sonthalia: And one last question like there are too many plants and capacity coming up in South specifically. So, any assumptions or any goals like what we are assuming our utilization of South plants going forward?

V. Venkatramani: Our target is to achieve optimum capacity utilization in the next financial year for the South plant. And if you look at the expansions which have happened over the last 12 to 18 months, most of the expansions have happened in northern India. And apart from Century's plant which is coming up in South India, no major expansions are happening in southern India.

Moderator: We have the next question from the line of Kushagra Bhattar from Old Bridge Asset Management. Please go ahead.

Kushagra: Just two questions. One, if I look at your production numbers and sales numbers, your production numbers are higher for second consecutive year and that sort of implies that there is some inventory buildup. So, wanted your thoughts on how are you thinking about inventory buildup for you, for other players and in the distribution channel in a declining price environment?

V. Venkatramani: There has not been any significant inventory build-up. So if you look at the first nine months of the current year, our production has been 3,62,000 cubic meters and our sales have been 3,57,000 cubic meters. So there's hardly been an increase of 5,000 cubic meters during the nine months period.

Kushagra: The broad math which I saw was on a 13% decline on revenue, your inventory levels have actually moved from 150 crore at the end of FY23, it has gone up to almost Rs.200-odd crore.

V. Venkatramani: You cannot really compare value with volume because on the value side there has been a drop in realizations because we have introduced a new product for the OEM segment. So, that has led to lower realizations. But on a volume basis, like I mentioned, we have had just 5,000 cubic meter increase in MDF volume.

Kushagra: So in short, basically, there is not much inventory buildup for you as well as in the system, that's what you're trying to say?

V. Venkatramani: Yes.

Kushagra: The second question is more related to the way you look at utilization or the way you plan your utilization level. So given you have continuous manufacturing plants, just wanted to get a sense on which apart from some maintenance, is there a question of switching on and switching off of the plant or you just run it for all 365 days except for those maintenance days. And if that's the case, how do you sort of manage the fluctuations in the utilization levels is what I'm trying to understand? And a follow up to this is what utilization levels you're planning in FY'25 in this environment where a lot of capacity ramp ups are also happening?

V. Venkatramani: So as far as planning the capacity utilization is concerned, our efforts are to have the plant running continuously except for the maintenance days. But yes, sometimes inventory buildup does happen. So, what we do is we prepone the maintenance or we take shorter runs or possibly some of the components of the machinery are shut down. So those are the things we normally do to ensure there's not any significant buildup of inventory. And during the current year, capacity utilization has been 73% for the first nine months. So, we would be targeting somewhere between 85% and 90% for the next financial year.

Moderator: The next question is from the line of Ritesh Shah from Investec Capital Services (India) Pvt. Ltd. Please go ahead.

Ritesh Shah: A couple of questions. First was on the Red Sea thing. You did indicate the container freight probably from Southeast Asia to India hasn't changed. But, if we had to look at, if there was a cargo from Vietnam which used to chase say, the European and the US markets, I think it will become economically unviable for them till the Red Sea issue continues. So, is it a threat that material could be dumped into India until the situation stabilizes?

V. Venkatramani: It's a difficult question to answer, because we have to look at what impact BIS implementation has. It's expected to be implemented after another 10-days. So, we'll have to see what impact BIS implementation has on imports. But I think, yes, it would be extraordinarily difficult for them to divert shipment from which you have planned for Europe to India at this point of time. Domestic consumers would also be wary of placing order for imports at this point of time, because they don't know whether those shipments could get stuck up because they are not complying with BIS norms.

Ritesh Shah: And Shobhan sir, you did indicate about the tedious process to get the registration done. Do these licenses need to be renewed every year basically when it comes to imports or is it a one-time affair which gives them a -?

Shobhan Mittal: No, it needs to be renewed on an annual basis. However, the first time the process is a lot more cumbersome as opposed to the renewal process. Also, keep in mind when it comes to BIS, every product, every sheet needs to be stamped with the BIS compliance code and the BIS stamp. A lot of these companies do not even have the facilities to do individual board printing like we do in India. So even on that aspect, they will have to do the compliance, install new printers and machinery, infrastructure needs to be created for that. And at the same time, the current quality parameters at this point of time not behind the line. Of course as a domestic producer we will push for the BIS to make sure that the products coming into the country now are BIS compliant, which will then have an adverse effect on the cost as well.

Ritesh Shah: How much is the cost for the renewal for the license. Just I'm trying to understand, so if the renewal is required every year, it becomes a bit cumbersome? Is the cost also a bit high?

Shobhan Mittal: I don't think the cost of BIS views, I'm not aware how it works as a foreign producer to get the highest compliance in the renewals. But in the scheme of things, I don't think that is prohibitive.

Ritesh Shah: Just last question on manpower. I think in the initial remarks, you did indicate that we will restructure teams in ply division. If you could elaborate on that? And secondly, we have seen a bit of attrition when it comes to the sales force even at the senior level over last 12, 18 months. So, how are we ensuring that we retain our top employees and people living at the top, has it had any impact over the last two or three quarters, how are we trying to recoup that?

Shobhan Mittal: Actually, it's right to say that what you see is attrition is actually part of the restructuring process. I would say that at the top-level whatever attrition has happened is a planned restructuring and a planned attrition to be honest with you where the company has chosen to replace or reassign people at that level. And on the Ply division, yes, the process is still ongoing, barring the manpower itself, there is also a lot of restructuring happening within the distribution network as well. Earlier, what we noticed was that there was a wide network of dealers and distributors, but the business coming from them was not consistent and regular. So, now we are in the process of weeding out people who are only dealing with us once every four months or once every five months, and focusing on more concentrated distribution model where people are holding stocks on a monthly basis doing business with us and then in turn distributing it to the retail network. So, both on account of the manpower as well as on account of the distribution network for the ply business, that is an ongoing process for the time-being. But we will definitely see the benefit of that in the next couple of quarters coming in. However, because of this major change that is undergoing, it is reflecting on the reduction of volumes because it's a big disturbance in the ongoing business model, but it's for the long-term benefit of the business.

Ritesh Shah: You indicated that we expect timber prices to reduce from FY26 only. Any specific reason for the timelines and the underlying variables over here please?

V. Venkatramani: The major plantations started in FY22 and it's a three-year cycle. So, I think yield from those plantations will happen towards the beginning of FY26 or could we say a couple of months earlier.

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

Praveen Sahay: Can you repeat the OEM volume numbers?

V. Venkatramani: It's 28,025 cubic meters.

Praveen Sahay: So related to that, if I look at this and look at the contribution, it's nearly around 29% of your domestic volume. So, where this number will go from here as a contribution of the domestic -- will it be at a 30% or it will be -?

V. Venkatramani: It will only go down from here, not increase from here.

Praveen Sahay: So any contribution you are aiming for the domestic volume to be directly to the OEMs?

V. Venkatramani: See, it's a difficult question to answer, because at different levels of capacity utilization, different levels of volume sold, the mix will be different. But, yes, to repeat my answer to your question, I think we are at peak as far as the percentage of sales to OEM is concerned. So, I don't think we'll see any significant increase from here on or rather we could see a reduction in this.

Praveen Sahay: And also in the realization of the domestic, we have seen that's a 3.5% reduction sequentially and I can understand it's because OEM contribution has increased as well as you had mentioned the increase in the domestic competition. So, can you quantify how much is the sequential reduction in the realization because of the two things?

V. Venkatramani: There's no reduction as such because of competition, because our prices have remained at the same level. So, the reduction in domestic realizations is entirely due to the change in product mix.

Praveen Sahay: On the export number, your export contribution has reduced to a 18% of overall volume and earlier definitely you had went ahead to around 27%. Where also in the export you want to be, at what percentage of contribution of your volume?

V. Venkatramani: See, our preference would be to have 90:10 mix of domestic and export. But depending upon demand conditions and prices in India and exports, so there could be change in that mix, but our preferred mix would be 90:10.

Praveen Sahay: On the domestic volume side, your growth is some single-digit versus your peers also reported a number in the domestic, they had given double digit as a growth and we can understand that there is another peer coming in the South with their plant. So, where you will see this domestic volume growth to way forward? And also, if you can give some color like why you are a single digit versus peers growing at a double digit?

V. Venkatramani: See, one could be because our capacities and volumes are much higher as compared to competition. You will also understand that growing 10% on Rs.100, it's far easier than going 10% on Rs.2,000. So since we are already in very large volumes as compared to competition, possibly our growth rate is lower. But I think starting from the current quarter, we will start seeing a significant improvement in domestic volumes.

Moderator: The next question is from the line of Hrishikesh Bhagat from Kotak Mahindra Asset Management Co. Ltd. Please go ahead.

Hrishikesh Bhagat: So the question is, you explained about BIS impact on MDF. How do you see it play out in plywood? I know probably imports are fairly small, but say for smaller domestic companies, I think compliance is fairly understood, but safe on production or raw material sourcing for smaller companies, how will that play out?

Shobhan Mittal: There is no change on the BIS compliance aspect on plywood. This is very specific to MDF only.

V. Venkatramani: There is BIS on plywood also, but I think that implementation will possibly happen with a time lag.

Hrishikesh Bhagat: I'm okay with probably it could happen with a time lag. I just want to understand, say in terms of improving the product quality or to meet the norms, what kind of changes probably smaller companies or probably unbranded companies would have to undergo?

V. Venkatramani: I think BIS will be very positive for MDF not only in terms of reducing import volumes, but over a period of time large part of the unorganized plywood segment will also be subsumed by MDF primarily due to compliance issues.

Hrishikesh Bhagat: Probably I got this market share shift. My question is more from the manufacturing angle, say, today if anyone is not confirming to BIS norms on plywood side, how will that change on the plywood on the domestic side?

V. Venkatramani: See, any domestic manufacturer has to comply with BIS norms, it's a mandatory requirement.

Hrishikesh Bhagat: So, there won't be any material change in cost or anything for the smaller companies?

Shobhan Mittal: There would be. Let me give you an example. When we talk about BIS norms, every aspect of the quality is for example specified, right, whether it is the screw holding, whether it is the consortium, whether it is the body of a workshop. Let's say certain parameter is not being achieved. That would might mean, let's say in the case of plywood there is a higher percentage of glue has to be used in order to achieve that strength level which BIS specified, so which in turn would mean that okay, that they will have to start using that higher quantity of glue to produce the plywood which would result in a cost improvement. At the same time, let's say, there is also a parameter of waterproofness of the product, right. Now, a lot of people produce plywood, let's say, using only urea or melamine product, whereas in order to get the waterproofing, you may need to have a higher quantity of melamine or a quantity of phenol in the resin which would again result in a higher cost of production. Same thing would apply even to the imports of MDF as well, where I said whether it is the density or whether it is these quality parameters which may result in additional manufacturing cost to comply with the quality norms. And that has applied to us as well. Fortunately, we as a company, domestic producer from the beginning, have already been complied into that. So, there's not a much material change in terms of cost of our production.

Hrishikesh Bhagat: Any change on the timber side for the unorganized or smaller companies because of this BIS norms, at least more on the plywood side?

Shobhan Mittal: When you say timber side, you mean to say manufacturing cost of timber?

Hrishikesh Bhagat: Quality of timber quality, say, do you feel probably that could also change for smaller companies in terms of or do you think there they are probably in line with what branded or larger companies like you or other peers procure on the timber quality?

Shobhan Mittal: No, I think where it might change is the quantity of timber consumed to produce the same unit. Like I said, if the density has to be increased, then they'll have to start using higher quantity of timber. But the quality of timber change, unfortunately in India, the quality of timber is constant or always sort of a downward trend. So, that will not per se change materially for them as opposed to the organized players.

Hrishikesh Bhagat: More from meeting the density requirement under the norms? Got it.

Shobhan Mittal: Yes.

Moderator: The next question is from the line of Senthilkumar Natarajan from Joindre Capital services Ltd. Please go ahead.

Senthilkumar: I just want to know, Greenpanel being a domestic leading brand in MDF business, unable to perform in tune with development and tremendous growth in housing market. What is the reason for that?

Shobhan Mittal: We are primarily an MDF producer at the moment and given the market conditions of the MDF industry which is at this point of time highly impacted by imports and by increasing raw material costs. So, we have to look at our industry sort of a little bit independent of the real estate market, I mean we are connected, but at the same time, market conditions of the MDF industry currently are not as rosy as it may be in the real estate market. So, we will have to look at that a little bit independent of that. Imports are a big threat. As Mr. Venkat has mentioned, raw material costs have gone up drastically, which are all impacting, and the domestic competition is also now intensifying quite strongly. So, which is all resulting and us at the moment being the largest player, we have a very clear target for any newcomers in the segment.

Senthilkumar: My second question is what is the difference between the import MDF price and the MDF domestic price in Q3 FY24?

V. Venkatramani: It ranges between 18% to 20%.

Senthilkumar: Even last quarter it was 18%, right?

V. Venkatramani: Yes, more or less prices have remained constant.

Senthilkumar: What is the Capex for FY24 and FY25?

V. Venkatramani: For FY24, I think probably 400 crore or close to that range, and the balance of the 600 crore Capex will be happening in the next financial year.

Senthilkumar: In last quarter concall, you said there is some delay in the shipments from Germany. What is the status on that?

Shobhan Mittal: At this point of time, barring the delay in the shipment from Germany, what is also uncertain is this Red Sea issue, which is affecting our shipment so far. But, we are quite confident that within the coming financial year, we will be starting commercial production maybe towards the later part of Q3 or in Q4, it should not go beyond that.

Moderator: The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Just wanted to get a sense of what is the estimated annual import figure for MDF say in FY24?

V. Venkatramani: It's a difficult question. So, you can give me a call tomorrow. No, I don't have a reply to that immediately.

Mithun Aswath: Year-to-date number, you would not be tracking?

V. Venkatramani: No, because we used to get data from our CHA agent. But that was banned in the budget of FY22 that they could not share those data. So, now we are dependent on the commerce ministry website which comes with a time lag. So, if you can give me a call tomorrow, I'll be able to provide that data.

Shobhan Mittal: What information I can share on that is, let's say in the past six months, I think we can confidently say that it's around 30,000 to 35,000 cubic meters average.

V. Venkatramani: Would probably be higher because as far as my knowledge goes, it was approximately 48,000 cubic meters per month in Q2FY24 and Q3FY24 would probably be an average of around 30,000 to 32,000, average of 30,000 to 32,000 in Q3FY24.

Mithun Aswath: Just wanted to understand in the domestic market, you reiterated that the competition is intensifying. Are they kind of pricing or the product lower and hence your realizations are also under threat, because you being the leader, you would have better pricing power, I'm just trying to understand, are they forsaking margins to gain market shares, so just wanted a sense there?

Shobhan Mittal: There is definitely a pricing pressure. At this point of time, we have certain benefits with regards to being located in two geographies -- North and South of India. But at the same time, we have not reduced prices, but we have, let's say in the last quarter for the current running quarter we have launched some end of the year schemes in order to keep or grow our market share. So, it's hard to say how this pans out, because certain capacities are yet to come online, and how they will price themselves and how the market will react. So, at this point of time, it's hard to put a hint to it, but no, there will definitely be certain pricing pressures going forward.

Mithun Aswath: You mentioned that the imports are 20% cheaper. I'm just trying to understand what are the benefits that the Vietnamese and these other producers get that they're able to produce and sell at 20% discount including the shipping cost, what is that reason and how can we also get competitive to those levels -- is it that the raw materials are cheaper, what is that X Factor?

Shobhan Mittal: It's a mix of both. Possibly, their plants are much older than ours, so they've fully depreciated. And I think for India, they follow a very similar model to what we follow for our export business where capacity utilization, anything above the variable cost is a key sort of objective. So, even though they may be making very low margins or even at breakeven cost, they're happy to run the plant and they basically dump the material. So, that is the reason why this export model to India exists. The rest of the international market also plays a pivotal role in this, because they're more lucrative markets, the demand increases there, then supply towards India reduces at the same time. We've seen that happen almost a year ago, export prices were almost 40% higher. So, it's a function of capacities in those markets, the local demand, how that currency plays out against the dollar, multiple reasons.

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

Aasim: First question is basically a clarification. So you mentioned that you expect your South India plant to reach optimal utilization in the next financial year. So, I presume this was for your existing capacity. So just keeping the expanded capacity aside, which I think would be delayed into the latter part of H2, but just North and South put together on existing capacity would have 15% volume growth in FY'25, be a fair goal to target over FY'24?

V. Venkatramani: Yes, that's what we were saying earlier. So we would be targeting a 15% domestic volume growth in MDF next year and possibly also for the overall MDF business.

Aasim: So the new capacity would be like probably contribute very minimal to the FY'25 volumes, is it?

V. Venkatramani: Yes, I think it will be a very small contribution, because currently there is some uncertainty when the Red Sea issue will be resolved and shipments will proceed to India. Like Shobhanji clarified that the plant is expected to begin operation either in Q3 or the beginning of Q4 at the latest. So, assuming it happens in Q4, so I think possibly it will contribute somewhere between 20,000 to 30,000 cubic meters this year.

Aasim: Second question is relatively more technical. So, just wanted to understand, BIS norms, are they more stringent in India versus comparable standards demanded by other countries at the Middle East countries, South Asian producers?

Shobhan Mittal: Yes, they are definitely more stringent. In fact, certain norms that BIS was following for MDF, were almost a replication of the norms that were there for plywood and then the domestic industry had to approach the Bureau of Indian standards and get them corrected. But, Indian norms generally tend to be more stringent compared to the EN standards or the other standards. And that is why we are saying that in order to honestly comply with the norms, there will definitely be cost increases on the part of the foreign producers.

Aasim: Also, the fact that their plants are older, so they produce older quality, is that also a factor?

Shobhan Mittal: No, I don't think that is a factor. It's the production process that you follow. But I don't think from a mechanical or a production capability aspect they would have limitation. It's a matter of willing to comply. It's not that they will not be able to comply if they want to.

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

Arul Selvan: I just have a couple of larger questions over here. I was looking at the margins on the plywood segment. I was just wondering; do we have any plans of exiting the plywood segment? Does it really contribute to our larger objective, or do you think it helps in some other format in terms of distribution strength or branding, is any other benefits of being present in the plywood segment?

Shobhan Mittal: We are very much optimistic that we should be present in this particular business because plywood in India is going to remain for the next many, many years to come. It still is the primary panel of choice. And as a company, we see that, going forward, as having a distribution network and leveraging that across the two products is going to be beneficial for us. We have already made investment. Any new investment that we choose to make gives us a very high revenue to investment ratio. So, it's a good model of business to be present alongside this MDF business, which is completely different which is very capital-intensive. So, we don't have any plans to exit this business, we are very much focused on this business. At the cost of poor performance in the current year, which is primarily on account of the complete restructuring and the refurbishment of the business model that we're doing, we see that in the coming financial year, we will look at this in a very positive manner which would allow us to reach optimal capacity utilization and then look at possibility of future expansion in the business as well.

Arul Selvan: My final question here is with regard to the OEM segment. Could you just help me out with understanding which kind of products the OEM segment consumers generally have and a sense of what the margins are in that segment for MDF?

Shobhan Mittal: The OEM segment is primarily focused on the imported product at this point of time, because it is a highly cost-conscious product. And at this point of time, there are two grades of products that the OEM segment is consuming; one is your standard imported industrial grade which is the bread-and-butter lowest grade product of the MDF market, but at the same time there are certain, let's say, more moisture resistant applications like kitchens which consume a higher grade of product which is with the green pigment which is what we call the exterior grade or the SDHA market. So this is the segment for which we have launched the commercial grade product, which is one quality lower to our industrial grade products which competes with the imported segment which allows us to save on certain costs because of the lower density which is comparable to the imported material. When we're talking about margins, the margins are slightly lower than our industrial grade product, but at the same time, when we see benefit of this particular segment is, when we produce a lower density product, our volumes in terms of production increases. So, the day we are reaching optimal capacity utilizations, that's where we would really start seeing the benefit because the savings come in the form of fixed overheads, because we produce much higher amount of cubic meters in the same amount of time as opposed to the higher density and the higher grade products. So, we may not see the margin benefit of that as on date, because we are still underutilized, but in the long run, we will do so, because fixed cost gets divided over a quantity of production.

Moderator: The next question is from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Just wanted to understand what kind of volume growth are we targeting in the plywood segment in FY25?

V. Venkatramani: I think primarily we would be targeting to achieve the volumes that we did for the plywood products in FY23 which was about 78 lakh square meters. So if you look at the volumes that we did in FY23, it can be broken up into two parts; 78 lakh square meters for plywood and 8 lakh square meters for decorative veneers. We have now exited the decorative veneers. So, we would want to go back to that 78 lakh square meters volume in FY25.

Nikhil Agrawal: We saw our quarter-on-quarter margins fell down for both MDF as well as plywood and even the volumes were down in both the cases. So, are we expecting the margins and the volumes are bottomed out at these levels?

V. Venkatramani: Yes, I would pretty much think so that volumes and margins have bottomed out.

Nikhil Agrawal: Just wanted to know like for the BIS norms, what are the license fees that importers need to pay the one-time cost and the annual license fees if there is any?

V. Venkatramani: See, the license fees is not significant, so that would not put any pressure on imports or even domestic manufactures. So, primarily if you have to comply with BIS norms, you have to make your products matched to the BIS specification. So for that, for imports should mean greater consumption of raw material to match the BIS specification and that will push up their costs and make them less competitive in the domestic market.

Nikhil Agrawal: Since most of these imports are made, the plant that is used is mostly the Chinese plant, so is it possible that as a whole is not allowed?

V. Venkatramani: No, if they are able to achieve BIS specifications, there's no question of a ban. But if they are not able to match BIS specifications, they will not be able to sell in the country.

Moderator: The next question is from the line of Harsh Shah from Dalal & Broacha Stock Broking Pvt Ltd. Please go ahead.

Harsh Shah: I wanted a data point. So, do we have the number of dealers as on date?

V. Venkatramani: So we normally compile and release these figures at the end of the year, and I don't have them immediately in hand, but I had some discussions with the sales team during my last visit to Gurgaon. So, they mentioned that added about 186 new dealers in this quarter. But I don't have the numbers for the first two quarters right now.

Harsh Shah: Do we use the same distribution network for both our products?

V. Venkatramani: No, it's almost completely different. I would say only about 15% to 20% would be common and the balance would be separate.

Moderator: Ladies and gentlemen, we have no further questions. I would now like to hand the conference over for the closing comments. Over to you, sir.

Rishab Barar: Thank you everyone for joining this call. We look forward to speaking to you after the next quarter and the closing of financial year. If anyone has any further questions, please feel free to reach out to us and we wish everyone a good day. Thank you so much.

V. Venkatramani: Thank you and have a good day.

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

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