GREENPANEL®

GPIL/2024-2025
October 30, 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 October 29, 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 Tuesday, October 29, 2024, at 11:00 A.M. on the unaudited financial results of Greenpanel Industries Limited for the quarter and half year ended September 30, 2024.

Please take the above on records.

Thanking you,

Yours Faithfully,

For Greenpanel Industries Limited

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Greenpanel Industries Limited

Q2 & H1 FY25 Earnings Conference Call
October 29, 2024

Rishab Barar

Good day, everyone, and thank you for joining us on Greenpanel Industries Limited's Q2 & H1 FY25 Conference Call.

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

Before we begin, I would like to state that some statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result presentation that was sent to you earlier.

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

Shobhan Mittal

Good morning everyone and thank you for joining us to discuss Greenpanel's "Operating & Financial Performance" for Q2 FY'25.

MDF domestic sales volume fell 4% year-on-year. Export volumes were impacted since we consciously stopped exports to those customers who were not prepared to compensate us for the steep increase in ocean freight rates and wood prices.

MDF domestic realizations were lower by 7.2% year-on-year at Rs. 30,404 per cubic meter. However, domestic realization showed a sequential increase of 2.7% due to an increase in the mix of value-added products to 54% as compared to 47% in Quarter 1 FY25.

Export realizations were higher by 24.4% year-on-year at Rs. 21,822 per cubic meter.

MDF EBITDA margins at 13.1% were impacted by lower volumes in the domestic segment due to price action by competitors.

Plywood volumes were higher by 21% quarter-on-quarter, although it was lower by 10.4% year-on-year. EBITDA margins at 2.5% were impacted by lower volumes and an increase in wood prices.

Plywood realizations at Rs. 250 per square meter were lower by 6.7% year-on-year. This was due to a decision to exit the Decorative Veneers business on account of lower operating margins and high working capital intensity.

We have restructured our plywood sales team to recover market share and reach optimum capacity over the next two quarters.

Post-tax profits for the quarter was lower by 55% Rs. 18.5 crore as compared to Rs. 41 crores in the corresponding quarter for reasons mentioned earlier. Net working capital at 40 days has shown an increase of 14 days year-on-year due to lower turnover and high inventory levels.

We have also reduced the credit period of vendors to ensure that we receive wood supplies on a regular basis.

Net debt stands at Rs. 97 crores as on 30th September 2024 inclusive of Rs. 228 crores for the new project. Work is progressing on the new project and we estimate the commercial production towards the end of Q3, FY25.

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

V. Venkatramani: Good morning, everyone, and thank you for joining us to discuss the Q2FY'25 "Financial Performance" of Greenpanel Industries.

Net sales during the quarter were Rs. 332.67 crores compared to 397.70 crores during the corresponding quarter last year. MDF sales fell by 16.6% at Rs. 295.81 crores and contributed 89% of the top line.

MDF domestic volumes fell by 4% while export volumes were also significantly lower to a conscious decision by the management to accept the orders only from customers who were willing to place new orders at revised prices to compensate us for increase in ocean freight rates and wood prices.

MDF domestic revenues were Rs. 262.91 crores, while exports contributed Rs. 32.89 crores. Domestic realisations were lower by **7.2%** year-on-year at Rs. 30,404 per cubic meter, while export realisations were higher by 24.4% at Rs 21822 per cubic meter.

Blended MDF realisations were higher by 1.6% at Rs. 29130 per cubic meter. Uttarakhand MDF operated at 75% and the AP plant operated at 55% with blended capacity utilization at 62% on capacity of **6,60,000** cubic meters. Plywood sales saw degrowth of 14.7% at Rs. **36.86 crores.** Plywood sales volumes were lower by 10.4% at 1.47 million square meters and the unit operated at 50% during the quarter. Plywood sales realizations were lower by 4.9% at Rs. 250 per square meter due to change in mix as mentioned earlier.

In Q2, FY25 gross margins were lower by 694 basis points year-on-year at 48.6%, **Ebitda margins** were down by 649 basis points at 11.9%. EBITDA in value stood at Rs. 39.56 crores and PAT Rs. 18.5 crore for reasons mentioned earlier.

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

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. The first question is from Praveen Sahay from Prabhudas Lilladher Pvt. Ltd. India. Please go ahead.

Praveen Sahay: Yes. So, is it related to the domestic MDF volume because domestic volumes were down year-on year and even the sequentially 11% down? And if I look at the peers also reported their numbers, their numbers are not so impacted especially in the volume. So, what are the reasons for us for the decrease in the domestic volume on the higher side so if you can give some indication?

V. Venkatramani: The domestic capacities have gone up considerably over the last two years moving from 2.5 million cubic meters to 4 million cubic meters and new companies who had just started fresh capacities were keen to grab some market share from competition and started operating at lower prices. So, this price action by competitors impacted our volumes. And in the latter half of the quarter, we introduced a new 4% Scheme for our dealers to soften the impact of price action by competitors. Hence, it was one-off for the quarter. I think we will start seeing improvement in the volumes from the current quarter.

Praveen Sahay: Okay, so basically you have also taken a corrective action to improve your volume for the second-half.

V. Venkatramani: That's correct.

Praveen Sahay: And if you can give the OEM volume for the quarter for domestic MDF.

V. Venkatramani: It was 16% of the domestic volumes.

Praveen Sahay: Okay. And on the export side, now your run rate for the MDF reached to around 15,000 CBM, in the coming quarters also we will. See the similar kind of numbers or any kind of improvement are you seeing?

V. Venkatramani: See, we are targeting about 6000 cubic meters to 7000 cubic meters per month for the second-half of the year but to some extent, it will also depend upon movements in ocean freight rates and wood prices because we do exports only if they are making a positive contribution to the fixed cost. So, we don't accept orders which are below our marginal cost.

Praveen Sahay: Okay. And can you help us with the timber pricing for the North and the South?

V. Venkatramani: Yes, timber prices have moved up by about 5% to 6% in the 2nd Quarter but for us, on a blended basis, it came down by 1.5% because we reduced purchases from distant locations, which helped to lower the transportation cost.

Praveen Sahay: So, basically overall for your costing 1.5% decrease?

V. Venkatramani: Lower prices on a sequential basis.

Praveen Sahay: Okay. And if you able to give the North and the South price?

V. Venkatramani: Yes, North was 6.63, South was 5.32 and blended was 5.86.

Praveen Sahay: And that is for a Q2FY25 average.

V. Venkatramani: Correct.

Praveen Sahay: And how are the currently prices are moving?

V. Venkatramani: In October the prices in South India have moved up by about 5% to 6% and North India is about 4%.

Praveen Sahay: Okay. Or any price actions have you taken in the MDF?

V. Venkatramani: We are in discussions with the sales team, so the working is on so we will possibly be considering that in the current quarter.

Praveen Sahay: And the last on the new plant which you already highlighted will be commissioned by Q3FY25. Can you give some more detail like your machineries are released or how is the situation there?

Shobhan Mittal: We are looking for first board production towards the end of the quarter. Let us say December we should have the first board out. And just to step in here in the North of India, we are seeing some correction in the timber pricing at the moment which will also be beneficial.

Praveen Sahay: Correction in the month of October 2024 you are saying.

Shobhan Mittal: Well, it's starting now. So, let's say we will see some impact in November 2024 for the Northern India.

Moderator: Thank you very much. We take the next question from Nikhil Agrawal from Kotak Mahindra Asset Management Co. Ltd. Please go ahead.

Nikhil Agrawal: My question was on the unorganized players, how are the unorganized players preparing for the implementation of the BIS Norms, have they already started aligning themselves with the BIS norms or are they yet to start doing that?

Shobhan Mittal: No, I think the BIS norms which will become applicable early next year, we are not foreseeing any further deferment on that. I think everyone is prepared to comply with the same. The industry has been working quite strongly with the Indian Standards Department, because the norms were quite outdated, so we have we have been working quite closely to update the norms in order to make sure that they are in line with the current times and that all the industries comply with the same because certain norms were almost picked up from plywood which were not applicable to MDF to start with. So, we have worked within the department to correct that and yes, going forward, everyone will have to comply, and I am quite sure everyone is already working towards that.

Nikhil Agrawal: Do we see any uptick in the pricing from the unorganized players as a result or do we expect?

Shobhan Mittal: In fact, we have already seen some information being circulated that the unorganized segment is going to take a 6% price increase. There is a separate association of theirs, which is met in the month of October and the information is that in November they are all going to take a 6% increase. How much of that actually gets passed on, how much of that gets implemented, we will only get to know starting November.

Nikhil Agrawal: You mentioned about some price correction that you had taken, it was a bit unclear, could you just elaborate on that a bit more.

V. Venkatramani: We introduced a new 4% scheme for our dealers around the middle of August. It was applicable for a part of the quarter.

Nikhil Agrawal: This was in addition to the scheme that is already there.

V. Venkatramani: This was in addition to the schemes, because like I mentioned, there was price action by competitors who had started new capacities during the current year. So, in order to counter that, we introduced this new scheme, but since it was in force for a part of the quarter, the impact of that on realizations was around 2%. But sequentially, we saw a positive movement in realizations because the blend of value-added products improved from 47% to 54%.

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

Udit Gajiwala: Firstly, you mentioned that you might see volumes improving from the coming quarter onwards. So, given that H1FY25 we have a decline on overall volume by 8%. So, 0% growth or it will be negative for FY25 and what are you projecting for FY26 in total volume terms?

V. Venkatramani: I will answer the question in two parts, first the domestic and then exports. We are targeting domestic volume growth of 15%-18% year-on-year in the second-half of the year. That should give us growth of around 10% in domestic for the full year. And on the export segment, we are targeting volumes of about 6000-7000 cubic meters per month, but to some extent that will be dependent on ocean freight rates and wood prices since we do not accept orders which do not make a positive contribution to the fixed cost that is the orders must be at least above our marginal cost.

Udit Gajiwala: And similarly, you also stated that since you have taken price correction and the volumes could go up, could we see some further price correction that could happen because I believe unorganized comes with a lag since it is a very small portion of MDF?

V. Venkatramani: Yes, our sales team is working on the quantum of price increase and we are also watching competitive action by competitors. So, we will be taking a decision on prices during the current quarter.

Shobhan Mittal: Sorry, just to clarify, I think the question was regarding price correction. I don't think there is any intention of reducing prices any further. If anything, we will start looking at some price increase from maybe quarter 4FY25 or even December 2024 for that matter. We are in discussions with the sales team. So, we are hoping for some improvement in the coming months.

Udit Gajiwala: And sir, just lastly, if you can give the CAPEX number for FY25 and FY26, that would be helpful.

V. Venkatramani: So, the bulk of the CAPEX has already been completed. So, currently, I think about Rs. 80 odd crore of CAPEX spend is pending, of which we estimate about Rs. 30 crore would happen in the current year and the balance Rs. 40 - Rs. 50 crore in the next financial year.

Udit Gajiwala: How much have we done in H1?

V. Venkatramani: I will give you that figure separately.

Moderator: Thank you. Next question is from Shraddha Kapadia from Share India. Please go ahead.

Shraddha Kapadia: I just wanted to understand the demand supply scenario for next 2 years, especially post the BIS implementation?

Shobhan Mittal: See, the market is definitely growing at a very healthy rate anywhere between 13%-16%. From a supply point, all the major capacities that were supposed to come in have already come in, ours is the next one. There are no major big lines in the pipeline anymore. What we are also seeing is a sharp decline in the imports already and going forward, when BIS is implemented, we foresee that imports will further decline. So, going forward, for the larger players, I think the situation would be better because everyone will start enjoying higher, let us say, growth and a market share percentage, purely because the market will continue to grow, imports will decline, and no major additional supplies are going to come in. Although two years with the current volatility in the market is a very long period to project, but this is what we foresee at this point of time.

Moderator: Thank you. Next question is from Ritesh Shah from Investec Capital Services (India) Pvt. Ltd. Please go ahead.

Ritesh Shah: Can you throw some light on each of the working capital variables, please?

V. Venkatramani: In the sense?

Ritesh Shah: Sir, on the credit days, on the payable days, on the inventory days, the moment and where do we see that stabilizing?

V. Venkatramani: For the quarter ended 30th September, inventory days were 56, receivable days were 8 and creditor's days were 24. So, we expect to see a moderation in inventory days during the next 2 quarters, but I think we are stable as far as the receivables and payable days are concerned.

Ritesh Shah: In the prepared remarks, you did make a comment that we have also reduced the credit period of vendors to ensure that we receive good supplies on a regular basis, just trying to understand that as well.

V. Venkatramani: So, if you observe during the first quarter of the year, creditor days were 30 days and currently, they are at 24 days. So, we mobilize faster payment to wood suppliers to ensure that there was regularity in supplies.

Ritesh Shah: Andr, you did give one of the numbers that the current capacity is 4.1 million CBM is the number, did I hear it right?

V. Venkatramani: That is correct.

Ritesh Shah: And corresponding to this, how much will be the consumption, broad ballpark at country level? I am just trying to understand the demand-supply gap.

V. Venkatramani: So, probably it was around 2.7 million cubic meters at the end of FY24. I don't have any numbers for the current year.

Ritesh Shah: And lastly in our prior calls, we have indicated that we are hopeful of the timber prices to actually decline. Are there any milestones or variables that we can actually look to monitor basically to understand that better?

V. Venkatramani: No, there is actually no organized data available on timber supplies. So, we will have to wait for the next crop which is expected in June-July next year, but I think there would not be a substantial reduction in prices next year. We will start seeing improvements in pricing. But I said we are not expecting major reduction because capacities have also moved up considerably over the last 2 years. We can expect significant reductions to happen in FY27, some moderation in prices in FY26 and significant reductions in FY27.

Ritesh Shah: And last question for Shobhanji, sir, you had indicated that we are rejigging our management structure and there were designed exits at the top level. Can you please indicate basically where we are segment wise and how is the business structured specifically from a marketing and sales standpoint?

Shobhan Mittal: So, the major restructuring that is happening is the amalgamation of the plywood and the MDF sales team. We basically combined them and were able to reduce the workforce size as well because of that because I think initially, there were inefficiencies in the plywood sales team. We had a very high number of people dedicated to it with too little volumes. By doing that, we have been able to reduce our overall sales team cost, operation cost and what we are also noticing is that from quarter 1 to quarter 2, we have seen a fairly decent improvement in the volumes. So, majority of the restructuring is in place now. What we have also done is we discontinued some of our physical branches and converted them to virtual branches, which has resulted in again a reduction in cost. We are not keeping physical offices in many of the branches anymore because it was primarily required for holding meetings etc., which is majority of the sales teams most of the time in the field. So, we have been able to do some cost reduction on that front as well. So, that was a major restructuring that we did by combining the two sales teams and we are seeing the cost benefits of that and we have seen a fair bit of improvement on the sales numbers as well because of that.

Moderator: Thank you. The next question is from Pankaj Parab from Molecule. Please go ahead.

Pankaj Parab: We are expecting the new capacity to be operational by next quarter and if the industry dynamics, I am talking about demand and supply mismatch remain the same. How are we planning to ramp up the new capacity and when we will be expecting to achieve maximum capacity utilization for the new plant?

V. Venkatramani: We are targeting a 50% capacity utilization in the next financial year and possibly around 75%-80% in FY27.

Pankaj Parab: And in the realization front, so we see some improvement in Q2FY25 on the realizations. We can say that Q1FY25 realization was kind of bottom for the industry and how do you see the realization in terms of value-added segment and non-value-added segment going forward?

V. Venkatramani: Yes, it does appear as if we have reached the bottom as far as sales prices are concerned. And regarding the value mix, we are targeting mix of value-added products at 65% of domestic sales for the existing capacity. Obviously, for the new capacity it will take time to improve the mix of value-added products. For the existing capacity, we are targeting 65% mix of value-added products by FY27.

Pankaj Parab: And last question, I am expecting that to ramp up the new capacity, do we need to push our sales by reducing our realization or some kind of debt to ramp up our new capacity?

Shobhan Mittal: No, I don't think we need to do any price correction because the new line is specifically designed for the thin segment. Greenpanel currently is not very prevalent in the thin MDF segment because the larger line especially in the South, it is not very efficient to produce thin panel, so it is a segment of the market that we are not really present in fully. So, we will simply be entering at market pricing to gain market share, but it would not result in price correction in our existing business. That is not foreseen at all.

Pankaj Parab: Can you please give us a broad realization on the thin side of MDF and our regular kind of MDF?

V. Venkatramani: You are asking for the difference between thick and thin?

Pankaj Parab: Yes.

Shobhan Mittal: Thin MDF realizations on per cubic meter generally tend to be anywhere between 5%-7% higher.

Moderator: Thank you. Next question is from Sneha Talreja from Nuvama. Please go ahead.

Sneha Talreja: Just two questions from my end. If I am not wrong, you mentioned that you have introduced a scheme of about 4% in August, has that been continuing or are you coming to withdraw it? That is one? And what is the basis of your assumption of 15%-18% volume growth guidance that you have given for H2?

Shobhan Mittal: Sneha, the scheme has been continuing at this point of time because the market pricing prevailing is factoring in that scheme also for the competitors. WWe have been continuing that scheme at this point of time. What we are seeing, we are on track especially in October 2024 with those kinds of growth numbers and we foresee situation to continue to improve. So, assuming that I think it is safe to say that for the second-half of the year, we should be in that growth percentage number, 15%-18%.

Sneha Talreja: One last question, we understand in the first half, you were selling at a premium and that there was competition which had cut prices much lower, at this point of time with your scheme continuing, where does your pricing stand versus, let us say, the other two leading players in the industry?

Shobhan Mittal: So, let us say, for example, the major competitor in the South started the new plant, I think pricing that was launched in the market was about anywhere between 7%-8% lower and then we corrected our pricing by about 4%. So, as on date, I would say the difference stands at about 3%.

Sneha Talreja: We are still at about 3% premium at this point of time with this scheme on?

Shobhan Mittal: Correct.

Sneha Talreja: And the last one is related to the BIS implementation, where are we seeing development happening in that particular front? Are we seeing players of other country anywhere close to getting anywhere else or that is far away and nowhere being spoken about at this time?

Shobhan Mittal: I think at this point of time, even because of the freight element there is, let us say, reduced interest in selling to India because its domestic pricing is already so reduced and there is not a very large gap from imports since we are not seeing too much of imports coming into India at this point of time. I am quite sure that certain companies going forward, no one is going to make the investment immediately because the exporters will be hoping that there could be another deferral or something of that sort. So, I think post implementation, I am quite sure certain larger companies will go ahead and comply with BIS, but it would reduce the number any which way. Many market dynamics at that time will be considered because of the cost involved to comply with BIS on their part as well.

Sneha Talreja: Sir, their cost automatically goes up around 5%-6% or would you have some ballpark number there?

Shobhan Mittal: So there is a onetime cost and then of course, what people have to consider as well is that if the BIS compliant material is of a different grade then a certain amount of volume needs to be produced for it to be viable, and if the market demand is for that kind of volumes. There is a one-time cost and then of course the cost of production might go up to comply with the others as well. So, they will have to factor in both, the fixed costs as well as the variable cost.

Moderator: Thank you. The next question is from Rishikesh Chandrakant from Kotak Asset Management Co. Ltd. Please go ahead.

Rishikesh C.: Just want your sense in terms of margin for this new plant in terms of, since we are targeting thin MDF, is it fair to say that at current prices or current margins, it will be lower at current prices of MDF?

V. Venkatramani: See margins will be dependent on a host of factors like what will be the capacity utilization, the mix of domestic and export.

Rishikesh C.: I understand that, but just indication, if it will be lower at the say at the stable.

V. Venkatramani: If they are operating at similar capacity utilizations, the mix of domestic and export is similar. The mix of value-added products is similar, then the margins will be similar. Like Shobhanji mentioned, the sales realizations are higher by about 6%-7%, but the costs are also slightly higher because for the thin material, the density will also have to be higher as compared to a thick MDF. Margins on a similar operating condition will be similar.

Rishikesh C.: Entire plant will be thin MDF or will it be mix?

Shobhan Mittal: No, so the plant is capable to produce thick MDF as well, but because we have two lines which are already producing thin MDF, hence the new line will primarily be focused on producing thin MDF.

Rishikesh C.: The other question is you spoke about that potentially not much capacity addition in industry, but say incrementally if anyone in the industry or say potentially for you, I know you guys have something coming up, but just if new capacity is to be planned if by industry participant, what will be the lead time in sense assuming land is there so for new capacity to come in system for MDF whether from German, I am not speaking about Chinese?

Shobhan Mittal: I think it is safe to assume 2.5 to 3-year period from a point of conceiving to the start of first board.

Rishikesh C.: And Chinese will be shorter?

Shobhan Mittal: Chinese, not that much shorter, unless someone picks up a second hand plant and chooses to move it, then it could go down by 6 months, for example.

Rishikesh C.: And those large part of the shipping freight issues are now behind or still they persist in the industry from the export as well as the import of machinery?

Shobhan Mittal: No, in our business we still face a challenge on the export side in terms of freight variability as well as cost still remain a challenge.

Moderator: Thank you. Next question is from Karan Bhatelia from Asian Market Securities. Please go head.

Karan Bhatelia: You did mention about the volume growth for FY25. How can we see the margin profile shaping for this year and maybe for next year?

V. Venkatramani: As compared to Q2, the current quarter, we are estimating 150-200 basis points improvement in the margin for the second-half of the year. And for the next financial year, I think, depending on how much of exports we do, like we are targeting 35%

growth in MDF domestic volumes including the new capacity. So, I think for that we can see further improvement of 150-200 basis points next year.

Karan Bhatelia: So, we are targeting 35% plus volume growth for FY26, is my understanding correct?

V. Venkatramani: That is correct. And it is only for the domestic volumes since we don't have clarity on exports because like I mentioned earlier, it will be dependent on wood prices and ocean freight rates, but for the next financial year, we are targeting a 35% growth in domestic volumes including the new line.

Karan Bhatelia: And while I believe the timber shortage is still on, are we also looking to import timber for continued operation?

Shobhan Mittal: We are exploring options for import of chips. Currently, because of freight, if the domestic prices, especially in the South of India, if they keep going up, then it will become a viable option. So, we are keeping options in hand. We are exploring options, and it is definitely a possibility for us in the future.

Moderator:: Thank you. Next question is from Keshav Lahoti from HDFC Securities. Please go ahead.

Keshav Lahoti: How is the OEM margin right now?

V. Venkatramani: OEM prices are currently at a discount of about 5%-6% as compared to retail and there would be a saving of around 2% in material cost. So, margins should be lower by around 350-400 basis points.

Keshav Lahoti: So, you are saying you are making the kind of 7%-8% margin for OEM, is it fair understanding?

V. Venkatramani: That will be higher because we are hardly making any margins on exports. So, the 13% margin is actually including exports. If you remove exports, the domestic margins will be higher. And OEM margins will be at a discount of about 4% compared to domestic retail.

Keshav Lahoti: Because my understanding was OEM business wise, what I understand earlier, you guided some like 3%-4% or maybe 5% margin in OEM business also, margin is very tight. It is not that way?

V. Venkatramani: No, earlier our exports margin used to be at that level. Because of the movement in wood prices and increase in ocean freight, that has come down to around 1% - 2%. But OEM margins would be about 400 basis points lower as compared to retail.

Keshav Lahoti: And there is a sharp drop in OEM and makes it for strategy like last quarter it was 24% of mix, now it is down to 16%?

V. Venkatramani: No, like I mentioned, due to price action by competitors, but we are slowly recovering that.

Moderator: Thank you. Next question is from Parikshit Gupta from Fair Value Research Pvt. Ltd. Please go ahead.

Parikshit Gupta: And this question is a question that I have been asking across the board. It relates to the demand of MDF and the demand supply scenario. So, we all understand the success shift to MDF, but we are based in New Delhi. So, we had the opportunity to speak with a couple of multi-brand dealers and distributors of engineering, wood products and one synonymous feedback was the fact of customers being more budget savvy instead of being brand savvy because of which, when they come in, they tell us that, okay, I am remodeling my house, and this is my budget. So, it is at the sole discussion of the dealer which product to offer and given that there is existence of the unorganized players, MDF in the market, although the difference in quality, be it in terms of longevity or water resistance is absolutely clear. But since they are more budget savvy and currently there is a significant price difference between the organized and the unorganized product, can you please comment on the medium-to-long-term evolution of this market scenario?

Shobhan Mittal: I think it is not fair to say that because of budget reasons a client or a customer could shift from a branded to an unbranded, I think within the branded segment, it is a safe assumption that within the organized players, price becomes a very important factor. Within the unorganized players, price becomes a very important factor, but I don't see a situation where a customer who is in the market to buy a branded product, whether it is us, whether it is Greenply, whether it is Century or Action for that matter, we will move to an unbranded segment. I think in terms of competition within the unbranded segment, there is also very strong competition going on. So, it is also not that the dealers are getting a higher margin when they are selling the unbranded segment products because there are a lot of players in that segment and cut-throat competition is there. I think it is not safe to assume that people will move from an organized to an unorganized brand because of pricing.

Moderator: Thank you. The next question is from Utkarsh Nopany from BOB Capital Markets Ltd. Please go ahead.

Utkarsh Nopany: I have two questions. First, on the MDF pricing side, so like you have mentioned that we have provided additional incentives of 4% in August month because of the competitive pricing action, despite imports remaining weak, so if imports starts catching up, then whether there is a possibility that the price hike in MDF sector looks difficult, at least for the next few quarters from here on?

Shobhan Mittal: I think the trend that we are seeing with imports, with the freight challenges remaining in place and with BIS approaching, most of, let us say, the segments where imports was largely being consumed, they have accepted the fact that it is a better option to buy from the domestic players. There is too much volatility in the import business. Lead times are higher. So, that is why you see majority of the OEMs now, there has been a sharp reduction in imports in their segment. And most of the domestic players are now, we are exporting just to contribute towards our margins, right, anything above marginal cost we are exporting. To compete with imports, the prices will always be higher than export. So, it is not like we are not geared to compete with the imports coming into the country. The moment it starts picking up, we will be in a position to compete with them. Everyone has below optimal utilizations in their capacities right now. So, we don't foresee a challenge of imports drastically picking up. We are very much ready to counter that.

Utkarsh Nopany: My second question is on the growth CAPEX part, like we have a pretty strong balance sheet even at this stress industry scenario, so wanted to know when we can expect to hear from you on our next growth CAPEX plan and whether we would be looking forward to entering into any new product category to diversify our business profile going forward?

Shobhan Mittal: So, you see our MDF line at the moment, the new one is just about to start. I am quite certain that for the next 2 years, we will not be investing any further in the MDF line. The idea would be to optimize the existing business. The new line needs to settle down and the volume and the product mix needs to come to optimum levels, we are quite certain that for the next 2 years on the MDF side, there will be no further investment. The plywood business is something, as I mentioned in our earlier calls is something we are taking up quite strongly. We are too small a player, and we don't want to remain small in this business. We also want to have the established businesses to be generating cash flows for us. We have always said that once the existing volumes of the plywood business comes to an optimal level, there is an option for us to increase our plywood capacities in which we may look at investing into the plywood business next year. But that again is not a very large investment because plywood, fortunately asset to revenue ratios is quite lucrative. So, that is the next investment that we may look at. So, at this point of time, this is what our capex plans are for at least till the next financial year.

Moderator: Thank you. Next question is from Resha Mehta from GreenEdge Wealth Services LLP. Please go ahead.

Resha Mehta: The first question is on the export volume, is the reason for decline in export volumes in MDF only the higher freight rates or are there some other reasons also? And a related question is that also the decline for imports in MDF into India, again the reason there is only freight rates, high freight rates, higher lead times or are there some other reasons also?

Shobhan Mittal: Firstly, with regards to the decline in our export volumes, as we noticed that our realizations in exports have gone up, because we took a price increase in exports. Now, primarily our exports are going to the Middle East countries and here we are competing with countries like Thailand, Malaysia, Indonesia was exporting to these countries as well. So, there are two reasons why exports have reduced, A, our timber prices have gone up, B, the freight element also has gone up. So, what we calculate is on an FOB basis, we should be making a positive contribution towards a fixed cost, as Mr. Venkat has already mentioned right. From a client’s perspective, we have a baseline FOB price, the client in turn sees the freight cost from India and compares it with the landed cost from the other countries. There are certain customers who are still choosing to buy from us. They are willing to accept the price, but again, there is a segment of customers who are very price conscious and do not care where the product is from or what quality it is. So, that is why export volumes had gone down because we have taken the price increase. That is number one. Can you repeat your second question again?

Resha Mehta: It was a related one, basically is that also the reason for decline in imports of MDF into India, the higher freight rate and the higher lead times?

Shobhan Mittal: I think again, it is a mix of both. As I mentioned, today companies are choosing to export, so OEM segment where majority of the imports are coming in is still a better business for us in exporting, right. Today, the costs of imports have gone up because of freight and the domestic producers have reduced their prices to this particular segment. So, they are trying to minimize the difference in pricing, so if a customer can buy, maybe at a 3%, 4%, 5% premium as opposed to importing, then they much rather prefer to buy from the domestic producers. So, there are two reasons, we have reduced our prices to this segment and the costs of exports have gone up, hence we see a decline in imports.

Resha Mehta: So, just to summarize, basically we as in at the industry has become less competitive in the overseas market while at the same time in the OEM space we have tried to become more competitive versus the imports that are coming?

Shobhan Mittal: Yes, you can say that.

Resha Mehta: And the second question is, again on this, sorry to harp on this again on the demand supply scenario, right? If I were to look at the supply, which is 4 million CBM and 2.6 million CBM are there about the demand at an industry level, again here, if you could just break it down into what is the export demand versus what is the domestic demand? And if you can help me reconcile that all this new capacity that has come in even for us, which plans to come in right, how is that going to be absorbed both in the domestic market and in the export market, without any major destruction to these realizations?

V. Venkatramani: It is obviously going to take time, because there is still about 30% gap between capacities available and the demand situation. So, probably it will take anywhere between 2-3 years for this gap to reduce. But I think domestic players have come to the realization that reducing prices is not the way because you are already down to minimum margins and in MDF the low margin is very negative because the asset turnover ratio is also very low as compared to other building materials products. So, I think now it will be a more structured competition, people will not try to gain market share by cutting prices. And the demand situation is still healthy in the sense that we are growing at about 14%-16% per annum. So, over a period of 2-3 years, this gap will narrow down considerably or completely evaporate.

Resha Mehta: And how much of this demand would be from exports currently, like of the 2.7 million demand?

V. Venkatramani: It is almost negligible because we and Rushil, who are based in South of India, are the only exporters. Players from North India cannot export because the domestic transportation from plants in the North to the Western ports, Mumbai or Gujarat would be about 25% of realizations. So, it is not economical to export from Northern India.

Moderator: Thank you. Next question is from Yash Sonthalia from Bouyant Capital. Please go ahead.

Yash Sonthalia: I wanted to understand better on the thin MDF market, so how much of the domestic demand is catered by export players and how much by the domestic players and what will be the price difference between the exported products and what we will be planning to sell our products?

Shobhan Mittal : You are referring to the imports you mean to say, right? Like imports coming into the country?

Yash Sonthalia: Yes, that is correct.

Shobhan Mittal: As Mr. Venkat said, majority, I think the market size for imports today is not very large, primarily because domestic prices are already quite at a low point. Of the total market size, I would say about 30%-35% is focused towards the thin panels. And the majority of that is being catered to by the domestic players. There are certain unorganized players who are solely focusing on thin MDF as well. So, from a pricing point, we will be at par with the domestic organized segment. We won't be any lower and as I mentioned, imports are not really a very big factor to consider in that particular sector.

Yash Sonthalia: When we are saying we will be able to sweat our capacity to 50% next year, so how we are planning to do that by lower realization from the domestic players or?

Shobhan Mittal: No, it is not, at the moment, for example, in the South of India, a lot of the thin panels are being catered to by the North players and they are not very competitive for example, so we will be, our pricing can be slightly better than them with a much better margin as opposed to the Northern player supplying to the South. Also, our overall fixed cost in the plant will be much lower because we have two large lines running in the same location. Keeping that in mind, I think we will be able to have better margins as opposed to our competition. And we are known for very high turnaround, very quick turnaround, serviceability, quality, that would also give us an edge.

Moderator: Thank you. We will take the next question from Harsh Shah from Dalal & Brocha. Please go ahead.

Harssh Shah: Just wanted a clarification, when you said 150-200 basis point of margin improvement, so that was H2 versus H1. Is that correct?

V. Venkatramani: No, H2 versus quarter 2.

Harsh Shah: Then for the full year, if the assumption correct that the existing capacity, EBITDA margin would be somewhere around 14%-15% for the full year?

V. Venkatramani: That is correct.

Harsh Shah: On the gross margin front, so two things happened this quarter, one was the timber sourcing for this quarter was lower by 1%-1.5% on a sequential basis. And secondly, our product mix in terms of value-added products was much better on a Q-o-Q basis. So, what I am trying to understand is what has led to?

V. Venkatramani: I got your question. See the realization may have been higher because of a better product mix, but for the value-added products, the cost is also higher as compared to the normal industrial or commercial material. So, that is the reason why in spite of even higher realization, those for the mix of value-added products, the realization is almost 40% higher as compared to the normal product. But that 40% incremental realization does not flow to the margins. The majority of that is also compensated by higher cost for the value-added product. That is the reason why we saw a dip in the gross margin.

Harsh Shah: So, then the timber sourcing, the benefit, we have not fully flown down to the numbers, is that correct then?

V. Venkatramani: Yes, that is correct. Because if you remember, I mentioned during the call that, although the realization has improved sequentially, but for the industrial and the commercial product, the realization has gone down by 2% quarter-on-quarter because we introduced a 4% scheme which was operational for a part of the quarter.

Shobhan Mittal: Sorry, I am just going to step in here to clarify one more thing. Timber is one element of the cost. At the moment, to keep timber prices down, we are buying different species of timber, we are buying mango, we are buying cashew, because availability of eucalyptus has gone down drastically. So, when we mix different grades or different species of timbers, even though we are able to purchase the timber at a lower cost, it could also result in a higher, for example, resin consumption, because different species react differently in terms of, so that could also be a reason why it is not a direct relation to timber cost and gross margins for example.

V. Venkatramani: And also, during the second quarter, which is monsoon dominated, the wood which comes to your plants has a higher moisture content. That also impacts the raw material because you are consuming more wood to get the same quantity of finished product because the moisture content is higher during the second quarter.

Moderator: Thank you. Next question is from Parth Bhavsar from Investec Capital Services (India) Pvt. Ltd. Please go ahead.

Parth Bhavsar: I have a few questions. First one on competition, so we believe Infra Market has taken over the capacity of Shirdi Industries. So, wanted to understand what is Shirdi Industries' capacity? And the second thing we highlighted that imports have gone down drastically over the last few quarters. So, like if you could through some numbers like from December to now, what is per month import number? What does it look like?

V. Venkatramani: The per month import number, I will share with you separately, it will take time. So, just to give you an indication, so if you look at the last financial year, imports on an average were about 35,000 cubic meters per month. During the first quarter of the year, they were about 18,000 cubic meters per month. And during the second quarter, there were approximately in a range of 8000-10,000 cubic meters per month. And the second question regarding Shirdi Industries and Infra Market, Shobhanji, can you please take that?

Shobhan Mittal: So, as far as I know, Shirdi's capacity was about 200-250 cubic meters per day on the MDF side. How much of that is currently being utilized, I don't know.

Parth Bhavsar: I just wanted to understand the capacity and the other thing related to import, so like wanted to understand the input parity math. So, what would be the landed cost for MDF right now in dollar terms?

Shobhan Mittal: I would assume with the freight; it should be somewhere around $195-$200 CNF India.

Parth Bhavsar: This is including freight? Sir, how much if you could just help me with the freight cost separately, it would be really great, it would be like $40-$50 per CBM?

Shobhan Mittal: No, I don't think it will be that much. I think it would probably be about 25-30.

Parth Bhavsar: And sir, one other thing, just like on the industry level, wanted to understand, so we operate at a very low working capital days versus plywood. So, if you could help me understand why is that the case like what are the variables that push down our working capital days versus plywood industry?

Shobhan Mittal: I think we managed to be disciplined from, as an early entrant in the industry, although we were still part of plywood company, We were able to sort of define the terms at that point of time being one of the early players and having a separate marketing policy and marketing team and fortunately, the industry has followed suit, at least the organized players have. So, especially on credit days, the industry has been quite disciplined. I think the fact that there are fewer large players in this industry has also resulted in a little bit more discipline in terms of the credit days which has resulted in lower working capital investment in the business in general and I think that is the reason. It is from a point of inventory; it is from a point of raw material. From a point of finished goods inventories and raw materials, it is not very different. The major difference comes on the credit days side.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the Management Team for closing comments.

Shobhan Mittal: We thank everyone for joining us on this call. If anyone has any further follow-up questions, we please ask you to reach out to us and we look forward to speaking to you again at the end of next quarter. Thank you.

V. Venkatramani: Thank you everyone and wish you all a very Happy and Prosperous Diwali in advance.

Shobhan Mittal: I wish everyone a Happy Diwali. Thank you.

Moderator: Thank you very much. On behalf of Greenpanel Industries Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen.

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