



Greenpanel Industries Limited
Q2 & H1 FY 2021 Earnings Conference Call
November 02, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 & H1 FY 2021 Earnings Conference Call of Greenpanel Industries Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now 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 Q2 & H1 FY 2021 conference call.

We have with us today Mr. Shobhan Mittal – Managing Director and Mr. V. Venkatramani – 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 detail 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. Thank you and over to you, sir.

Shobhan Mittal: Thank you, Rishab. A very warm welcome to everyone present. And thank you very much for joining us today to discuss Greenpanel's operating and financial performance for Q2 & H1 FY 2021. I do hope that all of you and your families are safe and well.

Business has improved significantly in this quarter. Net sales were up by 21.5% year-on-year at Rs. 218 crores. Gross margins were up by 80 basis points year-on-year at 56.3%. EBITDA margins were up by 320 basis points due to increase in capacity utilization in MDF and focus on wastage reduction and cost optimizations. PAT is up by 228% year-on-year to Rs. 18.06 crores. We are targeting double-digit growth in the remaining two quarters of the current year and are optimistic of better margins in the future quarters.

I will now request Mr. V. Venkatramani to run you through the financials in greater detail.



V. Venkataramani: Good afternoon, everyone. I thank you all for joining us to discuss the Q2 financial performance of Green Panel Industries. In Q2 FY 2021, our top-line was up by 21.5% compared to the year-on-year quarter. Net sales stood at Rs. 218 crores compared to Rs. 179.38 crores in the corresponding quarter. Plywood sales de-grew by 4.5% at Rs. 52.86 crores. MDF sales grew by 33.2% at Rs. 165.14 crores. Plywood volumes fell by 4% at 2.14 million square meters and MDF volumes increased by 31.3% at 82,133 cubic meters. Uttarakhand MDF operated at 74% and the AP plant operated at 52% capacity utilization.

In Q2, gross margin improved by 80 basis points at 56.3% as compared to 55.5% in the corresponding quarter. Gross profit grew by 23.3% at Rs. 122.82 crores compared to Rs. 99.62 crores in Q2 FY 2020. EBITDA grew by 44.3% at Rs. 44.71 crores as compared to Rs. 30.98 crores in the corresponding quarter. EBITDA margins were up by 320 basis points at 20.5%. Profit after tax increased by 228% at Rs. 18.06 crores for Q2 FY 2021 versus Rs. 5.50 crores in Q2 FY 2020.

In H1 FY 2021, net sales stood at Rs. 304.26 crores compared to Rs. 377.83 crores in the corresponding period. Gross profit was Rs. 161.02 crores in comparison to Rs. 199.22 crores in H1 FY 2020. EBITDA stood at Rs. 38.3 crores compared to Rs. 58.51 crores in the corresponding period. PAT was negative at Rs. 16.01 crores in the current half year, compared to a positive PAT of Rs. 8.21 crores in H1 FY 2020.

Dispatches for plywood in the half year stood at 2.91 million units, with capacity utilization at 50%. MDF volumes were 108,315 cubic meters with blended capacity utilization of the two plants at 40%.

Our debt-to-equity ratio stands at 0.74 as on September 30, 2020, compared to 0.82 as on September 30, 2019.

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

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

Nehal Shah: Congratulations, sir, for very good set of numbers. Sir, a couple of questions, one on the volume growth on the MDF side. The volume growth has been pretty robust, so can you take us through where has the growth come from, particularly considering the weakish environment we are in? And secondly, on the realization, the domestic realizations are down by, like exports have been up significantly. So, yes, these are the two questions which I would want to draw upon.

V. Venkataramani: I think the smaller towns and cities contributed to a significant growth in both MDF and plywood volumes, because the largest cities and metros saw de-growth, except for Delhi and NCR. And also, I think, the work from home culture and people opting to reduce their expenditure, these are contributing to the growth of readymade furniture and consequently the growth for MDF, which is a low value product as compared to the premium plywood.



V. Venkataramani And regarding realizations, they have been more or less steady. If we look at it, our domestic realizations were 22,738 compared to 23,147 in the corresponding quarter, so a de-growth of about 2%. And here, value added products also determine the nature of realizations. Since operating margins have improved, I don't think there was a reduction in realization. Hence, realizations are more or less steady on the domestic front. They have improved on the export front, primarily due to the depreciation of the rupee.

Nehal Shah: Okay. It's primarily because of currency depreciation?

V. Venkataramani: That's correct.

Moderator: Thank you. The next question is from the line of Balaji Vaidyanathan from NASA Asset Managers. Please go ahead.

Balaji Vaidyanathan: Congratulations on good set of numbers. Sir, just wanted to understand in terms of, is that kind of one-off element in this particular quarter that has led to a sort of a strong domestic growth that we have seen? And also, in terms of exports, the sort of difficulty in general in world trade, has it hampered imports to some extent which has contributed to our domestic volumes also growing so much? So, is this a one-off element, just want to understand?

V. Venkataramani: Good morning, Balaji. Regarding the first part of your question, I do not think its one-off element in this quarter, probably because we are seeing month-on-month improvement in volumes, like July was better than June, August was better than July, September was better than August. And even the current month of October has been better than September. So, I think, yes, consumer confidence is increasing, people have started to spend on furniture. Although the exact reasons for the same are not really visible because of the short period of time. We have seen the improvement happening month-on-month. And like Mr. Shobhan mentioned during the call, that we are expecting double-digit growth in the remaining two quarters. So, I think we are cautiously optimistic of growth in the remaining two quarters of the current year and better margins as compared to this quarter.

Balaji Vaidyanathan: Okay, sir. Thank you. And in terms of cost, just wanted to understand, Shobhan ji had mentioned in the opening remarks that some amount of cost measures had also contributed to margins expanding. So, have we seen the end of that? Or do you think there is still some more scope for cost reduction or once if things get back to 100% normalcy, we can see some higher costs going forward?

V. Venkataramani: No, I think we have not yet seeing the full benefits of the cost optimization, especially on the raw material and power side. Going forward, I think, we will see some further improvement in the gross margins and also the operating margins as and when capacity utilization improves and we reach levels of 85% and above.

Moderator: Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, you are talking about we have not seen the full benefit of cost optimization. So what sort of additional benefit we are looking at when we are reaching about maybe 85% capacity utilization?

V. Venkataramani: It's very difficult because the different factors which could impact the margins, like the mix of MDF and plywood in the total business, the mix of domestic and exports in MDF, and also the mix of Uttarakhand and Andhra Pradesh in the total MDF business. Hence it's difficult for me to state that the margins could improve by 50 or 75 or 100 basis points. But yes, I think we have significant scope to improve the operating margins by the time we reach the optimum capacity utilization.

Deepak Poddar: Okay. Fair enough. And any kind of growth outlook we have for the next year?

V. Venkataramani: No, we are not giving any growth guidance even for the current financial year. So, while based on the experience of the past four months, we feel that we could achieve double-digit growth in the remaining two quarters of the current year. I would wait to see the results of the same, because the pandemic is still having a significant impact on businesses, especially in the southern and western regions. And internationally also, the reports are not exactly boosting our confidence. So, I think we will look at guidance for the next financial year when we discuss the Q4 numbers.

Moderator: Thank you. The next question is from the line of Venkat Samala from Tata Asset Management. Please go ahead.

Venkat Samala: Congratulations on a very good set of numbers. Sir, just wanted to understand, firstly, the source of the demand that you are getting. Because as I understand that a large part of demand originates from the commercial office segment, which I understand is sort of weak. So, is the readymade furniture doing so well to more than compensate for the shortfall in the commercial segment? Because we represent 30% odd growth year-on-year, right. So just wanted to understand, which are areas from which you are seeing very good growth?

V. Venkataramani: I think it's a mix of factors, which is contributing to the growth. Like I mentioned previously that people are possibly reducing the expenditure on furniture. Hence in that sense readymade furniture manufactured from MDF helps them to significantly reduce the expense on furniture. Again, people are hesitant to allow carpenters into their homes to do furniture from plywood, so that's also possibly contributing to growth in MDF volume. The difficulties in availability of containers and ships, which is impacting our exports, is probably also having an impact on imports. Hence, there are various factors which have contributed to the growth in our volumes during the current quarter. It would not be right to attribute any one particular reason for the growth.

Venkat Samala: Right. Sir, the commercial segment, as it is, is witnessing challenges, right? So if the retail portion where you are seeing good traction?

V. Venkataramani: I think, two or three months is a very short timeframe to decide exactly where the demand is coming from. Hence, I will probably be able to give you a better reply at the end of the next quarter.

Venkat Samala: Sure, fair enough. And if you could help us understand, the exports versus the domestic mix for the quarter and how was it in the base?

V. Venkataramani: Our total MDF volumes were 82,133 cubic meters in that current quarter, and exports contributed 32% of the total. Export volumes were 26,505 cubic meters and domestic volumes were 55,628 cubic meters. During the corresponding quarter last year, our total sales were 62,530 cubic meters, exports contributed 16,490 cubic meters or 26% of the total, and domestic contributed 46,071 cubic meters or roughly 74% of the total MDF volumes.

Venkat Samala: That was very helpful. And one more thing which I noticed is, with respect to ply segment also, the de-growth was much lesser than what previously other companies were indicating. So, do you think the industry as a whole also sort of recovered meaningfully towards the end of the quarter or you sort of bucked the trend?

V. Venkataramani: No, I don't think it was just a special case for Greenpanel. I think industry volumes as a whole are increasing. And that's possibly the reason why we are seeing stability in prices during the past one year and also going forward. We expect this trend to continue in the future. I don't think we will see an increase in prices, primarily because all the manufacturers will focus on achievement of the optimum capacity utilization before concentrating on prices. But yes, we definitely expect prices to be stable.

Venkat Samala: Right. So then it's more a function of industry recovering as a whole quite meaningfully?

V. Venkataramani: That's right.

Venkat Samala: Sure, sir. And then one last question if I may squeeze in. So, the traction in the demand that you were witnessing in the sequential growth continued in October also, is it?

V. Venkataramani: Yes, that's correct.

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

Achal Lohade: Congratulations for the great numbers. Sir, my first question is with respect to the MDF business. Can you help us understand, so you indicated that there are issues with respect to container availability for exports, so could there be a meaningful impact for the quarter on the exports momentum? And how is the opportunity looking like where we are kind of seeing some export opportunity in the other segment? So is it looking better for us for MDF business or not really there isn't much change?

V. Venkataramani: We really do not have a significant interest in increasing our export volumes. We are primarily doing exports to have a better utilization of the capacities,

and also discharge our EPCG liabilities against import of capital goods. We will try to maintain the export volumes at the current level, and concentrate more on increasing the domestic volumes over the next two quarters, and also the next financial year.

Achal Lohade: Right. And with respect to domestic business for MDF, in terms of the number we are looking at like a +20% kind of growth in the second quarter. You mentioned that you are looking at a double-digit growth for the second half, is that at the company level or is that specifically for the MDF business?

V. Venkataramani: Yes, I think we will do it both at the company level and also for the MDF business. Because plywood has a share of only about 25% in the total business. So yes, we can achieve double-digit growth at the company level during the next two quarters.

Achal Lohade: Understood. And could you please help us understand the profitability, sorry I missed that, in terms of the ply business we are looking at 16% kind of an EBITDA margin, so how sustainable is that? What is the margin we should kind of work with for ply business?

V. Venkataramani: Yes. We can expect this to be a stable margin while we improve the capacity utilizations in the plywood business. We are still operating at low capacity utilization, so possibly there is scope to further improve the plywood margins as and when we touch optimum capacity utilization. We operated at about 78% capacity utilization during the current quarter, so definitely yes. But probably not for the next couple of quarters. In case, there are no further challenges due to COVID, I think we can keep this as a stable margin for the next few quarters.

Achal Lohade: So you mean 16% is the new margin, what has driven this margin improvement, if you could help us understand that? Pardon me if I am asking the repeated question actually.

V. Venkataramani: We have managed to reduce our raw material cost on the plywood side. I would not like to explain, the exact reasons for the same due to competitor action. But I think, yes, those benefits are to stay with us in the long-term and we expect plywood margins to be relatively stable or improve further with the increase in capacity utilization.

Achal Lohade: With respect to the government measures on the MDF, any update on that, since we were looking at like import restrictions on the bulk readymade furniture of anti-dumping duty?

Shobhan Mittal: No, the matter is ongoing if I am not wrong, three different anti-dumping cases ongoing, rather four. One is the renewal of the existing anti-dumping that is in place. Second is the inclusion of some countries which are currently not a part of the existing anti-dumping policy. Number three is investigation on thin MDF for anti-dumping is also subsequently ongoing. And number four, the government has also initiated investigation for imposition of Counter-vailing duty (CVD) across all MDF products. So, these matters are all under investigation at the moment, and I mean, of course, with the pandemic situation things are a bit slow at the moment, but the industry is

hopeful that we will see some positive remark in the favor of the industry. Apart from this, there is also a BIS implementation which is something that has been put on hold, but which may come into play in the near future. Whereas, like you see in products like tires, etc., the importers have to start complying with BIS specifications for products being imported into India. That would also help the domestic industry as it would act as an entry barrier for imports coming into our country. So all these things are still very much in process.

V. Venkataramani: It will also be relevant to add that anti-dumping duty on thick MDF, which was expiring in October, has been extended for a further period of three months till 20th January. So that could possibly be an indication that the government would complete its investigations and take action over the next three months.

Achal Lohade: Understood. And just one more question with respect to pricing of MDF in the domestic market. How is the pricing? Are we looking at any price increase? How is the situation in terms of the new players or the capacity which was kind of expected to be added?

V. Venkataramani: Prices have been stable during the past one year. And we expect that to remain stable for the current year, and possibly the next financial year, while both Greenpanel and the industry will try for optimum capacity utilization of the capacities. So possibly price increases will take a backseat during this period of time, we will be concentrating on achieving the optimum capacity utilizations and improving the margins. And regarding the new capacities, I think Rushil's capacity has been deferred primarily because the German engineers cannot travel to India at this point of time. Hence, I think that would possibly reduce the volume of new MDF coming into the market, possibly for the next six to eight months.

Moderator: Thank you. The next question is from the line of Divesh Gandhi from Finance Stockbroking. Please go ahead.

Divesh Gandhi: My question was simply on the cash flow. As per the working, it shows that probably we will do Rs. 130 crore to Rs. 150 crore EBITDA for the year, and cash flow conversion rate of 80% in working capital, so we should have a free cash flow of roughly Rs. 80 crore or Rs. 100 crore because we are not doing any CAPEX in the current year. So the cash flow will go towards repayment of debt or we can also think of doing a buyback or improving written ratios by doing a certain amount of buyback?

V. Venkataramani: We have about Rs. 50 crores of repayments during the current financial year, post the moratoriums that were taken between April and June. So, I think yes, we will have additional cash flows during the current year. However, we will not be looking to reduce our equity because it's very small equity base that we have of only Rs. 12 crores, so possibly while we may not be able to repay term debt beyond what is already due during the current year, we will possibly park those in our Cash Credit accounts and thereby reduce the net debt as on 31st March, 2021. Our gross debt was Rs. 506 crore as on 30th September, 2020. I think we could possibly look at a figure of Rs. 450 crores as on 31st March, 2021.

- Divesh Gandhi:** Okay. So, basically we are looking to reduce the interest cost by servicing by repaying the loans earlier, which will also help in improving the ROE also?
- V. Venkataramani:** That's correct.
- Divesh Gandhi:** Okay. And in terms of any partnership we are looking at in the next 18 to 24 in terms of any statutory partnerships we are looking at?
- V. Venkataramani:** Not really, we are not looking at any organic or inorganic growth till we reduce debt by a significant level.
- Divesh Gandhi:** And one last question. What is the breakeven capacity utilization level for us?
- V. Venkataramani:** For the MDF business it would be roughly at about 50% to 53%.
- Divesh Gandhi:** For the plywood business?
- V. Venkataramani:** For the plywood business it would be roughly about 70%.
- Moderator:** Thank you. Next question is from the line of Ankit Goradia from VC Investments. Please go ahead.
- Ankit Goradia:** Congratulations team on amazing set of numbers. If you could just throw some color on how is the whole competitive intensity in the market right now? Are we seeing a very strong trust on shift from organized players such as you taking very strong market share from unorganized? And what is our component between export and domestic market?
- V. Venkataramani:** I think growth has been steady during this quarter for all the major players. I don't think we are taking away significant market share from competition. Possibly MDF is taking away market share from other furniture manufacturing raw materials like plywood, etc. And as for the domestic export mix, our domestic export mix was 68% domestic and 32% exports during the current quarter, as compared to 74% domestic and 26% exports in the corresponding quarter last year.
- Ankit Goradia:** Understood. So we are pretty much in line over there. Going forward, how have are we seeing the market evolve? And in particular, is MDF going to be sort of now the new growth engine for the broader industry? And two, I mean, of course, too early to say but would we be kind of launching any new products or we are pretty much going of sit back and try to get our house in order right now?
- V. Venkataramani:** I think MDF will continue to grow faster than plywood, primarily because it has a very small base. MDF currently has about 10% market share as compared to plywood, which possibly has about 80%, 85% market share. Hence, MDF will continue to grow faster than plywood for the next three years, and beyond that I think we could see radical changes in furniture manufacturing in India. Online furniture retailing has already started, but currently volumes are low and most of the products are being imported from other Southeast Asian countries. But over a period of five to eight years, I think we will see a large number of both domestic and international

companies setting up large, automated plants for manufacturing furniture in India. And that could lead to a really major boost for the MDF as a raw material for furniture manufacturing, primarily because automated plants will not be able to utilize at least 90% of the plywood manufactured in India, because of structural defects in plywood. There are surface variations, there are core gaps inside the material. Hence, most of the plywood manufactured in India cannot be used as a raw material in automated furniture manufacturing plants. So, while we are cautiously optimistic because of the pandemic in the near-term, we are strongly optimistic about the future of MDF in the medium to long-term.

Ankit Goradia: Sure. That is helpful. Just a last piece from me in terms of our sales mix, could you give us some colour on how we are placed geographically?

V. Venkataramani: See, currently north and south has almost equal share in our MDF business at about 40% each, it could be a couple of percentage points here and there. And then west has about 15% share and East has about a 5% share.

Moderator: Thank you. The next question is from the line of Kedar V from Composite PMS. Please go ahead.

Kedar V: Sir, my first question is on the improvement in working capital that we have seen during the quarter. So, is this a function of the geographical mix change within the MDF segment? Or is this because of any other initiatives that the company has specifically taken in this aspect?

V. Venkataramani: I wouldn't attribute this entirely to steps taken by the company, because we have always been concentrating on the working capital cycle, keeping the credit terms as low as possible. But I think post the pandemic, our dealers have also become more cautious with their credit terms, and that's helping us to reduce the working capital investment.

Kedar V: Okay. So would I be right in saying that the entire industry has probably become more better at, I mean, the entire channel has become better at utilizing working capital, would that be a right assumption?

V. Venkataramani: Yes. Yes, that is our assumption, and we hope that this trend will stay for the long-term.

Kedar V: Okay. Fair enough. My second question, sir, can you help us with the utilization breakup between the two MDF plants that we have? What is the number at the Chittoor plant right now?

V. Venkataramani: On the production side, Uttarakhand operated at a capacity utilization of 74% and Andhra Pradesh had a capacity utilization of 52%. On the sales side, our total volumes were 82,133 cubic meters, of which Uttarakhand contributed 32,000 cubic meters and Andhra Pradesh contributed the balance 50,133 cubic meters.

Kedar V: Okay. So, taking this back to one of your answers to the earlier participant. So if the Andhra plant is operating close to that 50% to 53% number, would it be a right assumption to make saying that, going forward, the operating

leverage might actually play out at the Chittoor plant, assuming the growth comes in as we expect it to?

V. Venkataramani: Yes, definitely, we should see significant improvement in the margins at the Andhra plant. Like I mentioned, efficiency levels on the raw material side and also on the power side improve significantly when we crossed the 85% capacity utilization, specifically on the power side.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Very good set of numbers and strong outlook. Just a few question on margins, if I heard correctly, you said both ply and MDF operating margins also will keep going up from the current quarter levels? Your ply margins were already upwards of 16%, which was I think at five, six quarter high. So what's the outlook particularly on ply margins? And also MDF has increased dramatically and you are guiding for double-digit volume growth, so there also the operating margin outlook?

V. Venkataramani: Yes. On the plywood side, we expect margins to be stable, because we are not looking at any significant growth on the plywood side during the next two quarters. Hence, I would expect plywood margins to be relatively stable at levels of around 16%. On the MDF, yes, margins could definitely improve, because even if we look at this quarter, we were operating at a blended capacity utilization of 60%. So, as we scale up capacity utilization to 70%, 80%, and possibly looking at optimum capacity utilizations maybe in the last quarter of the next financial year. So there is definitely significant scope for MDF operating margins to improve.

Bhavin Chheda: Right. And again, on the volume growth, obviously, MDF looks upwards of 15%, 20%. But particularly on the ply, ply was a de-growth in this quarter also. So what is the volume despite a lower quarter one base, so which means that the pent up demand has yet not seen particularly in the ply volumes. And last year, your second half, again, the ply volumes were strong. So what would be the volume growth? Is October you are seeing better volumes in ply and any outlook there?

V. Venkataramani: No. October plywood volumes were relatively stable, more or less on similar base as September. I think, possibly nominal growth of about 3% to 4% in plywood volumes during October as compared to September. But yes, even that was a good pointer for us, primarily because October had a few festivals. So, we should normally have expected some de-growth in October as compared to September. So, that was a positive sign. But yes, we do expect some de-growth in the current financial year in plywood, primarily because we are present only in the premium plywood segment. And it looks as if customers are reducing the expenditure on furniture, concentrating more on readymade MDF furniture. So yes, we do not expect any major growth in plywood during the current year. We would definitely increase our efforts to improve plywood volumes in the next financial year, but yes, I think even if there is a small de-growth in the plywood business during the next two quarters, it will possibly be very, very minor. And so we expect EBITDA margins to be stable during the next two quarters at the current level of 16%.

Bhavin Chheda: Sure. And just the last one on the effective tax rate, because you are seeing deferred tax credits in last two, three quarters. So that will continue? And what would be the outlook for taxes and CAPEX in FY 2021 and FY 2022?

V. Venkataramani: As far as the tax numbers are concerned, we have seen small reduction in tax numbers due to deferred tax. So, although we did not take any benefit of deferred tax on the losses suffered in the first quarter, there was a reduction in deferred tax primarily due to forex losses incurred in the first half of the year. So, tax rate would depend on the profits that we earn during the next two quarters, and also the movement of currency during the next few quarters. So, to an extent, tax will depend on foreign currency. And as far as the tax rate is concerned, while our tax outflows will be fixed at 17.5% of profit before tax for the current year and the next financial year, it's very difficult to give an estimate for deferred tax, because there are various factors which could influence the same. So, our tax expense in terms of cash outflows would be 17.5% of profit before tax.

Bhavin Chheda: Sure. And the CAPEX number.

V. Venkataramani: CAPEX numbers, I think we should probably be at a level of Rs. 10 crore to Rs. 15 crore in the next financial year, and probably around Rs. 10 crore in the current financial year.

Moderator: Thank you. The next question is from the line of Karan Bhatia from Asian Market Securities. Please go ahead.

Karan Bhatia: Sir, what is the FOREX treatment in the current quarter, what is the number?

V. Venkataramani: We had currency losses of about Rs. 6.45 crore in the current quarter, and the same is considered as a part of the interest cost.

Karan Bhatia: Okay. So nothing above the EBITDA level?

V. Venkataramani: A very small number of about Rs. 48 lakhs at EBITDA level. So Rs. 48 lakh lakhs at the EBITDA level and Rs. 6 crore in interest cost.

Karan Bhatia: Correct. And what was the number last year in the similar quarter?

V. Venkataramani: Okay. At the EBITDA level it was Rs. 65 lakhs.

Karan Bhatia: Overall.

V. Venkataramani: Overall we had a gain of Rs. 1.6 crore.

Karan Bhatia: Okay. Thank you for the information. And also one more thing, sir. Now, what is the pricing delta between our pricing and the imported pricing, both on the thick and the thin MDF?

V. Venkataramani: On the thick MDF, the differential has reduced. Earlier it used to be in the range of 8% to 10%, currently it's at a range of about 6% to 7% for the thick MDF. On the thin MDF, the differential is still high at about 25%.

- Karan Bhatia:** Correct. And sir, you mentioned that we are primarily on the premium end of the plywood, so can I like have a ballpark number as to our plywood mix, what is a premium, mas and lower end?
- V. Venkataramani:** We manufacture plywood for the premium segment only.
- Moderator:** Thank you. The next question is from the line of Nehal Shah from ICICI Securities. Please go ahead.
- Nehal Shah:** Shobhan ji, one question on the capacity side. So, if you go through the industry bytes, we have seen three to four players who have started capacities in and around Yamuna Nagar in Haryana, so the likes of New Wood, Vihaan Boards. Are we seeing any threats or any competition from them in terms of pricing and supply, what is the status around that?
- Shobhan Mittal:** We don't foresee a very large challenge because these are primarily north focused players and also, obviously, I would say that they fall under the unorganized segment . So, we have always had a price differential with such players historically. And we don't foresee that having lower price products would pose a very large challenge to the organized segment. So we are quite confident of being able to maintain our prices **in foreseeable future, V. Venkataramani:** And again, we are very close to peak capacity utilizations at our Uttarakhand plant. So, competition action might not have any significant impact, primarily because we are very close to our optimum capacity utilizations in Uttarakhand.
- Moderator:** Thank you. Next question is from the line of Arun Baid from BOB Capital. Please go ahead.
- Arun Baid:** Sir, just one question. We are reducing our debt from roughly Rs. 543 crore to Rs. 450-odd crore, that's ballpark Rs. 95 crore of debt reduction in FY 2021. So, by when do you think, because incrementally obviously our utilization will go up, margins are going to look much better both in ply and MDF business. By when do you target net debt, because gross debt might be higher because of your payment schedule, net debt to be virtually over? By when you target to be debt free in that sense?
- V. Venkataramani:** Okay. It is a difficult number. So, at this point of time, what I can do is, possibly give you an estimate of net debt for the current year and the next year. Like I mentioned, we expect to be around Rs. 450 crores of net debt by 31st March, 2021. And we are targeting net debt of about Rs. 300 crores by the end of FY 2022. I would not like to go beyond these numbers at this point of time.
- Arun Baid:** One clarification, if the next two quarters are going to see double-digit MDF growth, in that case, the margins which came in this quarter at roughly 21.8%, we should see better numbers than that from the MDF business part of it?
- V. Venkataramani:** Hopefully yes.
- Moderator:** Thank you. The next question is from the line of Suraj Deora from Paladin Capital Management. Please go ahead.

Suraj Deora: I am actually new to this business and industry, so I had a very basic question. In the MDF segment, the capacity for the company is about 5.5 lakh cubic meter, what is the total capacity installed in India today? And what is the total demand for India today?

V. Venkataramani: I think installed capacity will be around 1.5 million cubic meters and there would be imports of around 250,000 cubic meters to 300,000 cubic meters currently. So, total supplies of around 1.75 million cubic meters and current demand would possibly be in the range of 1.1 million cubic meters.

Suraj Deora: And this demand is growing about 20% for the industry as a whole?

V. Venkataramani: Yes, I think around 15% to 20% annually.

Suraj Deora: Okay. And this product, the pricing, do you find the pricing is usually set by the imports as in do they set the benchmark and therefore the EDD has been added to give you protection?

V. Venkataramani: Not really. Imports into India are basically done at their variable cost of production. So, while that definitely has some impact on our domestic pricing, its not entirely influenced by that, because imports can be competitive only in and around the port areas. They cannot enter the interiors of the country where freight costs would be very high, primarily because the MDF is a low value product. Just to give an example, if an importer tries to bring MDF from Mumbai to Delhi NCR, he would be possibly paying freight costs of about 22% to 25% for moving the material from Mumbai port to Delhi.

Shobhan Mittal: I would just add to the classification that Venkat did, that imports are also limited to only a certain type of MDF, which is the regular industrial grade MDF. But there is also a very large consumption of exterior grade MDF and club grade MDF that we produce, also often lighter density products that we produce. Imports are not prevalent in these product segments. And secondly, imports are also limited to a certain category of consumers, large format consumers who are in a position to hold inventories who are in a position to open LCs, etc. So, in the general retail segment, imports are not that big a threat as compared to like large format OEMs or large importers. So, in these segments, even though, for example, in the retail market even in the ports imports are not such a big threat compared to the domestic industries. And pre-laminated MDF, which is a very sort of design related focused product where inventories and serviceability do become an issue, in that segment the imports are almost non-existent.

Suraj Deora: Understood. And related question to this is, if this industry is so attractive and growing so fast, what is the conventional entry barrier for new players to set up capacity and start selling MDF?

Shobhan Mittal: So, the entry barriers, in the wood-based industry, historically, the availability of raw materials, licensing issues. And MDF, I mean, for our industry is a fairly capital intensive in the industry where if you look at investing into plywood, the investment to turnover ratio ends up being close to 3.5x to 5x, anywhere between that. Whereas in MDF it is 1:1.2x model. So the level of investment required for the revenues as well as these traditional entry

barriers with regards to licensing. And also the fact that it is a regional business, freight is a very important factor. It also acts as a trade barrier because presence across the country is always challenging where the unorganized players are not able to transport material over long distances, simply because of the trade challenges and the freight cost, hence they become uncompetitive.

Moderator: Thank you. The next question is from the line of Balaji Vaidyanathan from NASA Asset Managers. Please go ahead.

Balaji Vaidyanathan: Sir, just a follow-up in terms of now that capacity utilization is slowly ramping up in the south plant as well, in terms of your thoughts on marketing and promotional spend, and the way forward if you could just throw some light.

V. Venkataramani: At this level of capacity utilization, we would just be concentrating on emphasizing our presence pan-India, primarily through glow signboards and promotional material. We are not really looking at any large scale branding expenditure. So, possibly that will be the way forward during the current year and the next financial year. And I think once we achieve the optimum capacity utilizations, we will definitely look at scaling up our brand expenditure, because that's what will help the business sustain over a long period of time.

Moderator: Thank you. We will take one last question from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: Sir, recently I visited a readymade furniture cluster in Mumbai. So what I learned from there was 80% of the furniture they sell is commercial ply and 20% is made from MDF. And the issues that I got to know about the MDF furniture was that they are not getting any warranty on MDF, whereas they give five years warranty on the ply furniture. And secondly, the moisture resistant capability of MDF is very weak, it directly gets swollen from water. So they highlighted that MDF furniture can be mainly sold on e-commerce websites only as they are heavy discounting models, and it is tough to enter the clusters of various cities. So what is your view on these?

Shobhan Mittal: So, actually the information that you have is partially incorrect, in my opinion, because there are certain segments of furniture making where primarily MDF and particle boards would be used. If you take even examples of players like Godrej or Merino, etc., their consumption of commercial plywood is almost negligible, number one. Number two, coming with regards to warranty, we are also providing warranty on the MDF products that we offer, going close to up to seven years as well, depending on the product sold. And I would assume that the manufacturers that you are referring to would, again, probably be of smaller or an unorganized category, the furniture manufacturer that you are referring to. Because organized MDF manufacturing or furniture making is primarily based on MDF consumption.

And with regards to this issue of the moisture, yes, it is a misapprehension in the market. But at the same time, it will also not be fair to say that in very wet applications, for example, prone to, like for example, if you are talking about doors for the bathroom or in certain kitchen applications, yes, moisture can be a problem, but that can be addressed by using the right type of MDF, like

the moisture resistant MDF that we produce. And in most cases, if these panels are being covered by a certain kind of decorative layer, whether it is paper, whether it is laminate, whether it is veneer, and if it is shield from all sides then the issue of moisture entering the panel anyway is eradicated. So, with the right type of application, the moisture issue is eradicated.

Shrenik Bachhawat: So basically, I think then the carpenters and the influencers are unaware of these benefits of MDF somewhere, and they are preferring plywood. So do we do any carpenter meets or anything to train them and educate them?

Shobhan Mittal: Yes. We have a completely independent carpenter training team. You see, also the misapprehension is, because it's a different product category and the carpenters are very accustomed to using plywood and are comfortable with that, so they don't like to leave their comfort bubble in a way. But we do have a completely independent dedicated team whose job is purely on the carpenter training and education side.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Shobhan Mittal: We wish to thank everyone for joining this call. And we look forward to speaking to everyone again for our next quarter call. And if anyone has any further clarification or questions that need to be answered, please feel free to email us or contact us with regards to the same. And thank you very much.

V. Venkataramani: Thank you, everyone, for taking out time to join us on this call today. We look forward to your presence in future calls. Thank you.

Moderator: Thank you. On behalf of Greenpanel Industries Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.