



Greenply/2021-22  
August 10, 2021

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

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

Dear Sir / Madam,

**Sub: Conference Call Transcript**

Please find enclosed Conference Call Transcript in respect of conference call for Investors and Analysts held on August 5, 2021 on the financial results of Greenply Industries Limited for the quarter ended 30th June, 2021.

The same is also available on the website of the Company viz. [www.greenply.com/investors](http://www.greenply.com/investors)

Thanking you,

Yours faithfully,  
**For GREENPLY INDUSTRIES LIMITED**

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

Encl.: A/a

**Greenply Industries Limited**

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Registered Office : Makum Road, Tinsukia - 786125, Assam, India | Corporate Identity Number : L20211AS1990PLC003484



**“Greenply Industries Limited  
Q1 FY2022 Earnings Conference Call”**

**August 05, 2021**

**ANALYST: MR. KARAN BHATELIA - ASIAN MARKET  
SECURITIES LIMITED**

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



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2022 Earnings Conference Call of Greenply Industries Limited hosted by Asian Market Securities 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. Karan Bhatelia from Asian Market Securities. Thank you and over to you, Sir!

**Karan Bhatelia:** Thank you Rituja. Good morning all. On behalf of Asian Market Securities, we welcome you all to the Greenply Industries Q1 FY2022 conference call. We have with us Mr. Sanidhya Mittal - Joint Managing Director, Mr. Manoj Tulsian - Joint Managing Director & CEO, and Mr. Mukesh Agarwal - Chief Financial Officer. Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation that is sent to you earlier. I now would like to invite Mr. Manoj to begin the proceedings of the call. Thank you and over to you, Sir!

**Manoj Tulsian:** Thank you, Karan. A very warm welcome to everyone present and thank you very much for joining us today to discuss Greenply's operating and financial performance for Q1 FY2022. As part of our transformation journey, we are happy to announce that Greenply has decided to foray into MDF board business. The plant with an installed capacity of 800 CBM per day and the investment outlay of around Rs 548 Crores should be operational by Q4 FY2023. The unit has been strategically located in the western region market to get the first mover advantage and capitalize on the latent demand. This new business segment will act as a key catalyst for our long-term growth plans in terms of market penetration and profitability.

Going forward, we see greater consumption of MDF products led by increased preferences for purchasing various furnitures and other varied applications of MDF. Post the gradual unlocking and things getting back to normalcy, we were moving at a good pace if you have all seen our Q4 FY2021 numbers, however, with the unexpected disruptions due to second wave, our performance remain muted for this quarter, but the momentum is again picking up from July onwards and we see a decent turnaround of demand scenario and financial performance. Though there are still some bottleneck like supply chain and labour availability as still there are some restrictions on public transport.

Our under-construction Greenfield Plywood Unit in Sandila, Lucknow is on track, the site development activities have started. We have incurred the capex of around Rs 5 Crores in



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the current quarter and the balance capex of around 85 Crores will be incurred in the next three quarters



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hope normalcy will return for our Gabon operations in coming quarters. On standalone basis, there was no major capex in the current quarter, however we are expecting around Rs. 18 Crores to 20 Crores of maintenance capex in financial year from the India business and from Gabon business. Our balance sheet continues to be robust, consolidated debt has reduced to Rs 186.8 Crores as on June 30, 2021, from Rs 191.7 Crores as on March 31-2021. Consolidated debt equity ratio also continues to decline and standing at 0.42 as on June 30, 2021 as compared to 0.41 as on March 31, 2021. I would like to hand over the call to the moderator to open the floor for the Q&A session. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Hrishikesh Bhagat from Kotak Asset Management. Please go ahead.

**Hrishikesh Bhagat:** Thank you for the opportunity. So, two questions from my end on the MDF. First since it is on the western part and not many of the peers are present there so just wanted to understand what will be the source of raw material, is there any board plus like what the peers have in western part of India, in Gujarat also and secondly on the end market for this plant, you will be targeting export or within India which are the regions in the sense whether it will be first southern region, northern region, if you can give some color on that, that would be helpful, thank you?

**Sanidhya Mittal:** So, I would like to answer this question. So firstly on the raw material availability, our team has done detailed search on the raw material availability and we have some data from third party agencies also which do remote sensing and give us the plantation data of that area, so the data as well as the physical progress of our team says that putting a plant from the raw material availability angle is perfectly fine and we should go ahead with it, number one. On the other side our focus is definitely going to be the western market because there is no other players in MDF industry in the western market and without affecting our margins we will be able to pass on the benefit of transportation on a full fit to our consumers in the western market and hence definitely it will be 3% to 4% cheaper in the western market and will be able to get our substantial market share in the west. As far as export is there, we are not putting the plant thinking about exports, but yes, we will definitely take advantage of EPCG and not pay import duty on the machinery importing, so we will have some amount of export liability, which we are going to fulfill. And as on the current scenario even the export prices look very attractive so looks like even on the export liability which we have, we will be making good money on that.



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**Hrishikesh Bhagat:** Sir, just one question, you did cover a large part of the western market, so currently the demand in the western part of India is serviced by imports and southern plant or it comes from northern plant also, if you can help me on that, that will be helpful, thank you?

**Sanidhya Mittal:** I believe that two players who have plants in south, I am sure for them they are making more sense to supply from south, the rest players who do not have plants in south, they are supplying from north as well, but not in a great quantity because that market is not a focus for them and in the past before the pandemic, a lot of import was happening in the west, now after the pandemic and given the current global scenario, the import is almost down to negligible levels.

**Hrishikesh Bhagat:** Thank you.

**Moderator:** Thank you. The next question is from the line of Yogesh Kulkarni from Quantum Mutual Fund. Please go ahead.

**Yogesh Kulkarni:** Thanks for the opportunity. Sir, my question was partly answered, but I just want to continue on that, do you have any thoughts on ESG point of view, I mean the sustainability of the raw material or something on the carbon emissions and all, water consumption, any data is not available at present, but would you like to share any thoughts on that?

**Manoj Tulsian:** So, you know as Sanidhya has mentioned we have done a detailed research on all these aspects and we were extremely comfortable and the move is quite strategic in terms that if we really see our total capacity, annualized capacity would be around 240000 CBM and there is already an existing market thereof close to around similar number and by that time our plant from that number is going to grow. Second, as much as all of us understand about MDF, which also like a commodity where the freight plays a greater role, so there is some latent demand today which is not visible because once you add the sourcing from north or south with freight costs it does not becomes viable, so moment we have a plant in west we are able to cater to those demands also easily.

**Sanidhya Mittal:** And in fact we will have advantage on the chemical purchases also because most of those chemicals are there in the Gujarat belt, so there we will again get a pricing advantage. So, overall on the raw material side we will get a pricing advantage and the plant will be very strategic and near to the port, so we will always get the strategic advantage of even exports to Middle East, Europe, Africa all those places.

**Yogesh Kulkarni:** Thanks. If there are any questions I will come in queue.



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- Moderator:** Thank you. The next question is from the line of Achal from JM Financial. Please go ahead.
- Achal:** Good morning. Thank you for the opportunity. My first question is with respect to the MDF foray, if you could give us a sense in terms of what kind of ROCE profile are we looking at and what kind of payback are we looking at for this segment?
- Manoj Tulsian:** See, the payback period would be anything around 7 years and on a steady scale will start generating ROCE of around 18% to 19%.
- Achal:** And this 18% to 19% you think post tax or pre tax?
- Manoj Tulsian:** Post- tax.
- Achal:** Understood and this is assuming the 15% tax rate right, I mean the benefit of the new subsidiary investments, right?
- Manoj Tulsian:** Sorry, I did not get you?
- Achal:** This is under 15% tax rate, right or 25% tax rate?
- Manoj Tulsian:** Yes, that is one of the reason that we are just trying to make it very fast pace, it is a challenge which we have taken, we got some advantage by acquiring that company because a few speed work has already been done by them so that helps us in slightly making it fast pace. Still I would say that all of us know that setting up any new Greenfield project on MDF takes as seen the past data of all the recognized companies that has taken anything between 24 to 30 months, so we are really trying to speed that up and fingers crossed we hope that we will be able to commence our production in Q4 of FY2023.
- Achal:** Understood, this particular facility, what is the area and is that the final capacity we can set up there or we can further expand as we go along?
- Manoj Tulsian:** You know since we acquired this company they were looking at a land parcel of around 75 acres, which is much more than setting up the first plant so, we will have adequate opportunity in future to expand business horizon here in this land parcel.
- Achal:** Out of these 75 acres, how much are we using in the first phase?



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**Manoj Tulsian:** We are still on drawing board, but I think our internal assessment is we should be using around 35, not beyond that, I mean we are trying to do everything within 30 only plus or minus 2 to 3 acres.

**Achal:** That means potentially we can double the capacity if thing get better and as years pass by is that fair assessment, Sir?

**Manoj Tulsian:** Absolutely fair assessment.

**Achal:** Understood. Sir, my next question was, how do you look at the sales part of the MDF would that be more OEM driven, that will be more retail driven and do you see risk of any confusion with respect to the brand given Greenpanel is already there, so are you going to use the same green brand or could that be some different so that there is a clear distinction between the two?

**Sanidhya Mittal:** I like to answer this question. In MDF our understanding is that we will have about 20% of the channel which is going to be common and 80% of the channel is going to be unique, which will include specific player who sell MDF and also OEMs. So as a brand I think we will have to work very hard and create our space there. The advantage we are going to get that, it is a commodity product and because it is a commodity and we are going to have price advantage in Western India, we will be able to capture the market very fast that is one. Number two is that even today as we talk Greenpanel has their own plywood in the market and Greenply has its plywood in the market and both have been able to get their market share and survive and do well. And in fact if you see we are further expanding our plywood capacity. So in plywood wherein the branded game is much bigger and it is not that much of a commodity in India, we are able to successfully market both the products without any confusion so I am sure that in MDF also we will be able to do that. We have not exactly decided what brand names are we going to market MDF under, our marketing team is working on it, but most likely we are going to do it under our flagship brand, which is going to be Greenply.

**Achal:** Just a thought I mean in case of a Greenpanel the ply business is relatively small and they are not looking at any further expansion in that business while in case of MDF for us, we will look at further expansion. I'snt that a little different from the ply argument I would say?



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**Sanidhya Mittal:** Well, it is different, but when you compare our MDF scale and their MDF scale, their installed capacity is much higher, so if they are a small player in plywood we will be a small player in MDF for now for sure.

**Manoj Tulsian:** They continue to be larger in MDF, they already have good capacity and we will also look at expansion in future, right. But for us it is more like rather than pure play in one side of the panel business. And MDF as we said the application is many fold, beyond furniture also, so it actually somehow balances us also in terms from a risk perspective.

And whether it is you know Greenpanel or any other company everyone will survive at the end of it and today if you really see both the companies as Sanidhya mentioned we are there in the plywood business which was common, MDF it was not common right now, both of us have survived and both of us have grown, so we do not see that as a challenge at all.

**Achal:** If I may ask one more question, before finalizing the India foray, given the large capex that spreads on the balance sheet, have we also looked at the other segments .What is the thought process before arriving at the MDF if you could give some sense, that would be great in terms of the capital allocation, in terms of given our ply business has far, far bigger returns profile, so what is the rationale for MDF. I mean I understand the opportunities there, derisking is also another factor, did you also kind of evaluate the other segments of the wood panel and something like that actually, that would be great?

**Manoj Tulsian:** I think good that we missed out something and when you asked that. So if we really see what we have done in the plywood business which is our flagship business and let me tell you that this will continue to be our flagship business, the leader in the Greenply basket even after 5 year, I mean the plywood business. So as MDF and some other businesses also which we see in future they grow, this will remain as a flagship product plywood. Now what we have done in the last 12 to 15 months, we have tried to improve the quality of our balance sheet, we have disciplined our sales on many aspects in our plywood business, now the visibility out of that is that you can see we have good amount of free cash, which we have been able to generate in the last 12 months despite so much of headwinds. Now the idea is that since in plywood we are not looking any major investments going forward and given the way we are working with the growth opportunities which are trying to find out in plywood, we will have cash generations every year and the best way and efficient way to deploy it at a place where we made good ROE and ROCE and this is one business which we understand as a family because do not forget that at one point of time because all are combined entity and the promoters have excellent understanding and knowledge of the business So you are venturing into a territory which is already a known territory and we all



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know post the pandemic things have actually improved for the MDF business, people are trying to move out from China, they are trying to setup shop here, readymade furniture, other applications, the technology itself is improving for MDF so we clearly see this as a good entry point. The balance sheet is healthy, we will keep generating good cash flow from the plywood business and we will use the same for our expansion so that becomes our growth capital that is how we look at it.

**Sanidhya Mittal:** I would just like to add, also for Greenply it was very important because we are mainly producing subset material and for us to be present in this category and for us to always be a leader in the industry we have to come out with new edge panels. Beyond the point the growth in plywood will always be eaten by new edge panel product such as MDF, so we have to be present in both categories and grow both categories. In plywood the growth will mainly come from eating the share from unorganized and in MDF of course it is a new demand and new avenues that India is learning, the rest is already learned and we are following them.

**Yogesh Kulkarni:** I understood. This is very helpful. Just last question if I may, you know in terms of the ply business what would be the outlook. How has been the July month and any guidance you could help us with, in terms of the volume margins?

**Manoj Tulsian:** See, as I said in the last call also that quarter one for sure was not as per our expectations though June started picking up to some extent and July is better than June, and which I mentioned in my opening speech also that even today many part of the country, we all know that the public transport has still not started, so labour still somewhere is the challenge. Also we are facing and I am sure others are also facing is a challenge on the supply chain side, truck availability in certain pockets of the country. But having said that we feel that one, the demand will be back and we have done all right things in the last 9 to 12 months, so I am looking at it now positively assuming that there are no more waves, which really comes on and hits all of us as a industry, as a country, I am hopeful that the next three quarters would be far, far better than what we have done in quarter one. and in terms of margins we will have steady margin for quarter two if we have smooth operations from here on, then we will have good margins as we have mentioned in the past for this balance 9 months.

**Yogesh Kulkarni:** Understood. Thank you so much. I will come back in the queue for more questions. Thank you.



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

**Venkat Samala:** Sir, thanks for the opportunity. Just building on the previous participant's question, just to understand a little bit more with respect to the rationale and the outlook for MDF business for the company moving forward, you did mention that plywood would continue to be your flagship business segment, but I am just trying to understand from an incremental capital allocation standpoint, how do you see the outlook moving forward for the company because there may not be too much of a capital that your flagship business would be consuming. So shall we assume that moving forward a lot of capital would hereon be deployed from a medium to long term perspective I am just trying to understand, towards this new business?

**Manoj Tulsian:** So, Venkat actually you have answered it. if you really see for the next I would say 3, 4 years, 5 years what we are looking at is, one to stabilize this plant, run it at its full scale which we are assuming that by FY2023. So we are assuming in FY2026 we would be to be running the plant at full capacity and by the time my existing business would be generating cash which we can use to repay a lot of our existing loan going forward also and maybe even partially start repaying part of the loan what we take for MDF. And we know once we get to see that how we start performing in MDF, yes, if I continue to generate cash here, either we look at expansion in the same business going forward or we decide we have time. At this point of time since the debt profile will go up we have the easier option of repaying that debt also and then depending on how well we grow in the plywood business and what type of cash we generate we will also look at whether we can add other products going forward and whether those will be capital intensive or whether we will look at a lighter model in those new product revenues, so all these things all the thought process are coming because the balance sheet has become much stronger and as an organization we can tell you we are not the one who wants to leverage beyond a point. We try to balance the capital allocation, we will try to balance the leveraging and then we will also continue to look at the growth perspective.

**Venkat Samala:** Right, understood. So, maybe not from a very long term perspective, but maybe say from 3 to 4 years time horizon would it be fair to assume that your focus would here on be only on ply and MDF segment and you may not look at any other categories for now and your management bandwidth would largely be invested to ensure that these two businesses would grow for you as a company and largely because MDF is a new category for you and you are deploying so much capital so therefore you will ensure that you will scale up quite well in this particular business?



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**Manoj Tulsian:** Well look, I may not have a clear answer on your question at this point of time, but I can say with me also joining as the senior management person and we have actually increased our horizon of management bandwidth. At the same period of time we are also hiring quality people so we already have some very quality people on the MDF with tons of experience who understands from setting up the plant to running the business very well. So we are also building up a team where we only get into guidance mode, initially we help them to set up of business card running and we look at more of capital allocation program that you know what next we need to do. So I think that today bandwidth is not a challenge and as I said that since at one point of time Greenply was one entity and the promoters were very hands on from day one, so we also want to leverage the experience what they have in the business which we understand best why not we start with those businesses rather than you know venturing into new territories Like earlier also we have qualified that our interest always will be in building material segment only. But even within that the areas where we are very comfortable where there is good knowledge base understanding which is already there if we get an opportunity why not look into those categories.

**Venkat Samala:** Right and given the fact that your net worth at this point in time close to 450 Crores, how did you decide on the size of the new MDF plant. The total capex is around 550 Crores odd and then one of your peers had ventured into this particular category, I think they went with the smaller size plant. So just wanted to understand how did you get to this 800 CBM per day size or capacity?

**Manoj Tulsian:** See, as we said we will have a distinct advantage of setting-up the first plant in west, today there is already now our own analysis says that there is already a market of close to around 250000 CBM and our capacity is only 240000, which also will become operational in FY2024. By that time we feel the way MDF business is doing it will grow further. Plus as I said that there is a latent demand which is here in west and since today they cannot take supplies from south or north because that becomes expensive so they are looking at alternate, they have may be not even now decided to really go big ways on the MDF side. The moment we do this now we will get into and we will start looking at some tie-ups also. So for us the real true wood market is the belt of Rajasthan, Maharashtra, part of NCR and Gujarat. These are the stronger market for us and when we looked at 600 CBM versus 800 CBM the capital cost was not proportionately going up, so we felt that this is when we are going to put so much of hard work behind the same, the rationale was that 800 CBM is making much more sense than the 600 CBM to start with, and that is how we came to this decision.



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**Venkat Samala:** Fair point and last question, what would be the EBITDA break even capacity utilization points for this new capacity?

**Manoj Tulsian:** I think it should be around 50% to 55%. Whatever we are talking right now you know, we have been very conservative on this working 50%,

**Mukesh Agarwal:** It should be around 44% to 45% .

**Manoj Tulsian:** I think Mukesh ji is right, the way things are today possibly 40% will be given.

**Venkat Samala:** And when do you expect to get there?

**Manoj Tulsian:** First year, FY2024 itself.

**Venkat Samala:** Sure, Sir. Thanks a lot and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Romil Jain from Electrum PMS. Please go ahead.

**Romil Jain:** Good morning and thank you for the opportunity. My question is on the plywood side, I think about a year back we had envisaged the plan on the distribution networking, going more into the semi-urban areas and a bit more on the rural areas. So one is on that distribution, where do we stand right now, how is the progress going because distribution will play a key role in increasing our revenue on the price side also because we are also doing the other expansion also which will come on board next year. So that is the question and along with that how do we see the unorganized to organize playing out?

**Manoj Tulsian:** See, that is something which we continue to work upon in terms of network penetration and I think around August we started this initiative and we have been able to create a new network of almost around 600 plus dealers under the same. But as I said it is not that we had started billing to all 600 on a monthly basis, on an average we found that at least one-third of that we have been able to now convert and start billing them on a monthly basis, which means if you look at it we added around 6% to 7% of my total turnover in Q4. Now we need to continuously work on this, there is a plan which is going on, our team is working on the same and we will continue to expand this horizon.

**Romil Jain:** Sorry, Sir, to clarify the 600 dealers they are incremental dealers or we started the initiative or how it is?



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- Manoj Tulsian:** Yes, these are incremental dealers I am saying after we started the initiative.
- Romil Jain:** The entire position change in terms of dealer points?
- Manoj Tulsian:** No, we are spread across the country.
- Romil Jain:** No, in terms of numbers total dealership?
- Manoj Tulsian:** Total you are asking?
- Romil Jain:** Yes.
- Mukesh Agarwal:** We have around 2300 dealers across the country
- Romil Jain:** Okay and just another question on the Gabon operations, so how it is progressing, I think you were trying to sell some material to the US also and I think there was some issue on the freight and the availability of the ships and everything, so how is the situation right now and when can we expand that?
- Manoj Tulsian:** Well you know the situation remains somehow similar, we have not seen much improvement in terms of getting the vessels and we still have a good amount of containers waiting for shipment and this is what we were apprehending even I have continued to mention this in previous call that as long as this entire pandemic worldwide does not really substantially improves we might see this pressure to continue. So my own hunch was that up to December we do not see really things improving and that is how the same has been at the ground level also. But having said that also we are able to do a reasonable sales, all our other things have been in placed, we have become efficient on the production side, raw material now at this point of time is not a challenge there, so all other thing are there. We have actually cut down on all production because of the dispatch issues, we have not gone back to the US customers only because the last time also when shipped it, it took almost 5 months for the consignment only to reach to them. So today like we are cutting down on our orders even from Europe. As far as southeast is concerned it is slightly on a weak footing, the order book is not so good, but we have a fulfill as I said that we are actually rejecting orders also because we would not be able to meet our commitments and there are so much of volatility in price and sea freight that we do not want to get into that risk.
- Romil Jain:** And on the RM side, how is the situation? Have we seen escalation if yes, any price hikes that we are going to take, some sense on that, Sir, thanks?



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**Manoj Tulsian:** On the domestic side you are saying?

**Romil Jain:** Yes, on the raw material on the plywood.

**Manoj Tulsian:** Raw material price we felt that it was getting into a stable zone, but again we see some amount of volatility. Our own sense is that maybe by Q2 we will be able to see more stable prices, but there has been some raw material price increase again in quarter one. We took a price increase of anything between 2% to 2.5% in quarter one and we might look at another price increase again in quarter two.

**Romil Jain:** Thanks a lot for the clarification.

**Moderator:** Thank you. The next question is from the line of Sonaal Kohli from BowHead. Please go ahead.

**Sonaal Kohli:** Thank you, Sir, for this opportunity and my query pertains to your gross margins. We have seen a very substantial increase in gross margins, this obviously helped EBITDA margins considering negative operating leverage. So assuming no third wave whenever you normalize whether it is this quarter or after this quarter, what kind of EBITDA margins can we expect because if I extrapolate your EBITDA margin of Q4 and at the delta of gross margins it looks too good to be true, so some light on that would be very helpful?

**Manoj Tulsian:** I think a lot of effort is also going on into building our efficiencies in each and every area. Time has been very tough, but God has been very kind that many of our initiatives are working on the right direction. As far as gross margin and EBITDA margin is concerned, I think whatever guidance we have given in the past, we are looking at somewhere around 13% to 14% EBITDA margin which we had promised to everyone by FY2023, we were able to reach very near to those numbers even in Q4. So I think of course Q1 is an aberration because when we could not achieve the scales of the right sale we could not have seen those type of EBITDA. But from Q2 to Q4 if things now runs properly without any disruption, I am sure we will continue to look at 13% type EBITDA margin and our surge to grow it further in any case will continue. At the same time we are investing also a lot back into the business, you would have seen we had done a good amount of marketing activity partially in Q4 and then in Q1 again. So brand building activity, investment on IT infrastructure in a big way, investment on people, so all those initiatives are also going on at the same time. Now even despite all those if you are able to reach to a 13% or 13% plus margin, I would say that it will be a job well done because reinvestment into the business is extremely important for us if we are looking at next 10 years horizon.



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**Sonaal Kohli:** Thank you. One more followup, what is your sense of the plywood or real estate cycle. We asked you 6 to 9 months back and it was perhaps to worry to ask you, do you think this is more led by pent up demand or do you think this is more structural in nature. Are we beginning or we end are we at which stage of the cycle, whatever your personal thoughts would be really appreciated?

**Manoj Tulsian:** Well I think in our opening speech we mention that we are very bullish in terms of the real estate business picking up. So not from a price point of view, I have no answer on the same, but I am saying in terms of volume business, the real estate business will pick up further because of this pandemic situation where the work from home has become so common. Even today morning I was talking to a consulting firm and they mentioned that they have not even seen their office for last one-and-a-half year, they are so comfortable now working from home and this is what we are hearing from most of the consulting businesses. IT businesses have scaled down their office sizes and now 30% to 40% of their people are still working from home. So looking at this I think real estate demand will go up, upgradation of house will take place where 2BHK will move to a 3BHK and 3BHK will move to a 4BHK. So one is that this new demand which would be there, second coming back to post-pandemic the reality is somewhere the dealers fraternity have also sensed that there is a lot of challenge in terms of supply issues from the unorganized market, there has been a lot of disruptions. So somewhere that conversion is also taking place. Over and above that whatever GST initiatives were being taken in the country around 4 years back, that has also started to play out because the government is becoming stricter day by day, transparencies are improving in the businesses. If you will see fast track approach, other initiatives taken by the government so with all these things I think for any branded goods business, the time would be good and we also being part of the same, we will get a lot of uptake because of the same also, the conversion of unorganized to organized.

**Sonaal Kohli:** Sir, just a follow up on your answer, since you are more at the premium end and obviously you do have economy products also but they are very small as a part of your turnover so how would transition from unorganized to have national benefit you would not benefit more growing national or regional brands which are large in size let us say 100 Crores, 200 Crores and over and have some element of small branding they also have the GST related issues and they are also facing supply chain and therefore when you said unorganized you referring to these enabled size players or are you referring to really unorganized players because really small unorganized players they would not be a competition for most of your business?



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**Manoj Tulsian:** We have mid size brands in the medium segments and we are expecting that it will grow very well. When you are saying compared to the unorganized market, the demand should happen there. Then also as the leaders have come out with the E-0 initiative, we are the first one in the country to have the E-0 products across our entire premium category, so there is a shift of demand also which will happen because more and more senior organized players will move to some of this initiatives. And today if you really see one thing people are really worried about is health, so these are also initiatives which will give uptake to companies like us. And today if you see otherwise even if you are talking of may be B grade players today, yes, we have the opportunity to grow why not because if you see the ratio of organized to unorganized it is somewhere around 20 to 80, so we are not looking at converting the entire 80 to add up to this 20. Even a 10% shift is good enough for some of the large players to grow very well for the next 5 to 6 years, very well. We can we can grow extremely well if that type of a shift also happens over a period of next 5 to 6 years.

**Sonaal Kohli:** Sir, lastly, are you confident of maintaining your gross margins around these levels or there any one off because of mix change or regional change shift in this quarter?

**Manoj Tulsian:** Look, I would say that I am more guiding on the EBITDA margin because we will have to also see other upgradations what we are doing at different levels as I said we are reinvesting also back into the company. So better gross margin only empowers us to reinvest into the business and at this point of time that is really required if you have to build up the business for the next 10 years. Having said all these things, the guidance on EBITDA margin, which we maintained around last year of 400 basis points improvement, we were at around 10% at that point of time, so we have almost reached around 13% if you see quarter four and I think we will be 13% to 13% plus going forward.

**Sonaal Kohli:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

**Abhishek Ghosh:** Sir, thank you so much for the opportunity. Sir, just one question in terms of MDF, how are you looking at because MDF is also used in the retail segment now, so any thoughts when your plant kind of comes up say in FY2024, how much of that you will be able to leverage as far as a dealer distribution network is concerned or will it be predominantly to OEMs only?



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**Sanidhya Mittal:** So, I would like to answer this question. So, as I mentioned in this call today that we believe that 20% of the network is going to be common and 80% of the network we will have to create and develop, so we are assuming that 20% of our total network already sell them, these are mainly dealers distributors and some OEM is also buying plywood from us. But as we enter into this category, 80% of dealers will be new unique partners who are either OEM owners or people who run the OEM or they are dealer distributor who was specifically dealing with MDF. Also in west what has happened is that there were very large importers who are selling MDF and who are since pandemic sitting without any business, so we are also looking to tie-up with them because they already had a market created and they do not have any material to supply to them.

**Abhishek Ghosh:** And just one more question, would you also look at evaluating other products where there is presence beyond plywood and MDF or would you want to stabilize these two products only?

**Manoj Tulsian:** Early to comment, but I had said that we will have to continue to look at growth opportunities and as and when we look at anything further of course we will come back to you people.

**Abhishek Ghosh:** Sure, thank you.

**Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.

**Ashish Poddar:** Thanks, Sir. So if you can just elaborate on the distribution model of plywood and MDF, is it similar or very different. And in terms of your funding plans for the capex what are you targeting and what will be the interest charge expected on that. In the plywood capacity utilization was pretty low in Q1, I understand that the primary sales were lower, but we saw that in other consumer product category people could not sell in Q1, but they build inventory in expectation of pent up demand in coming quarters, so their plants were running at full capacity, but in our case it hit from 100% to 70%. So are we expecting only gradual recovery and no V shape type of recovery in coming quarters and in that case, is our growth guidance which were there earlier has been proved significantly?

**Sanidhya Mittal:** First, I will answer your first question which was the plywood and MDF distribution model. So I think they are quite different. Plywood in India with players like us, we have made it a very branded where there was a huge gap between the branded plywood and unorganized plywood where the brand enjoys a premium and the number of sellers are too many in the



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market hence like marketing the product and branding the product and doing good sales need a lot of hard work. While on the other side MDF is a commodity where brand does play a role, but not to a great extent, and availability, right quality, right pricing, right product plays a bigger role in MDF and obviously having all of this and the brand it is an added advantage. So you know we will have the right product, we will have the right quality, at the same time will have a better pricing in west, which will help us enter the trade and to the OEM market very, very fast. And this better pricing will come not at the cost of margins, but at the cost of saving outward, it is just totally justified and we will be able to enter the market and penetrate very, very quickly. So this like a short explanation what are the difference between the trade of MDF and plywood. What was your other question?

**Ashish Poddar:** The funding of this capex.

**Manoj Tulsian:** Funding is a mix of internal accruals and debt which we are going to raise and interest rate, we just now approached bankers since we just got the approval from board.

**Ashish Poddar:** But will it be domestic or external borrowing also?

**Manoj Tulsian:** Well we are looking at the best of it, so it will be a mix. Partially it will be domestic and partially it will be foreign funding. And that is what have thought of at this point of time but of course everything will depend on the commercials and the pricing. so once we go to the market then we will be able find a figure out but I think right now we are looking at a mix of both.

**Ashish Poddar:** And on the plywood growth guidance for the year?

**Manoj Tulsian:** Growth guidance, if you have already seeing quarter one, which was disappointing because almost a month of May there was hardly any activity. And with the pandemic situation continuing, everybody talking about the third wave, the growth is a factor of how things pan out. So I would suggest that let us not look at the growth number because commenting anything on that is something where you know there are so many things which is today beyond our control. And you have seen quarter four performance, I am sure that people understand that if things comes back to semblance we will try to match it.

**Moderator:** Thank you. The next question is from the line of Arun Baid from BOB Capital Markets. Please go ahead.



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**Arun Baid:** Sir, this MDF plant of our is going to be more German or it is going to be biased with Chinese?

**Sanidhya Mittal:** So, as of now what we have planned, though we have not signed the main line because we got the approval yesterday itself, but we are deciding that the main press forming and all the important machinery is European while the ancillary machinery and the machinery to support the main line which are not that critical in nature is going to be Chinese. So it is more like a hybrid plant you can say that have 60% to 70% of the machinery is European and the rest is Chinese and the energy plant is Indian.

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

**Achal:** Thank you for the followup opportunity, Sir. If I look at this standalone numbers, the employee cost the number is fairly substantial, it is at around 39 Crores, which used to 33 Crores to 34 Crores earlier. So can you help us understand is that a new run rate we should look at or was there any specific element which kind of drove this higher staff cost?

**Manoj Tulsian:** No, I think this is the new run rate which you should expect. We are adding people also and so we will continue at this run rate only. See last year similar time operations were not working so they were a lot of savings on the wages side and other things and last year we had done some rationalization also in terms of people though we had not done anything in terms of salary reduction. This year we have not done anything in quarter one because we are very bullish about the performance, we are also adding some new category, adding people also, so this will be the new run rate.

**Mukesh Agarwal:** So Achal just what Manoj ji said this numbers 39 includes provision on an account of ESOP also, it is close to 3 Crores, so, that is a noncash cost which is also there, more than 1% to 1.5%.

**Achal:** So, that will also continue?

**Manoj Tulsian:** Yes, it will continue, noncash cost, but it will continue.

**Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

**Kamlesh Kodak:** Good morning, everyone. I have a broader question, we are saying that currently MDF is less than 20% of the overall wood markets and you also have been highlighting that plywood may not be growing at same pace so from three to five years perspective what do



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you see is the growth rate for the industry. I am not talking about organized or unorganized, how would be the industry grows for plywood and MDF and five years from now how you see the proportion of the MDF as an overall part of the overall growth industry. Can you share that?

**Manoj Tulsian:**

See, MDF, we saw some past data, we had seen a CAGR of around 10%, but given the changes which has happened in the dynamics in last 12 months, actually post the pandemic we now estimate that the markets can grow anything between 12% to 15% and is here to stay for the next maybe even 10 years. Again plywood I think would be a lot more shift from the unorganized to organized, but we still feel that 3% to 4% increase in plywood sales overall market would be there in terms of volume terms.

**Kamlesh Kodak:**

And do you see that with so many players now coming in MDF even Century has also highlighted of expanding with one more plant and some other plant also come up in the southern market, do you see that there will be a medium-term kind pricing pressure across the industry, both on realization as well as on the margin?

**Manoj Tulsian:**

I do not perceive that because this will become like a regional play. So as I said that when we are setting of a plant in west, we are looking at utilizing maybe even 80% to 85% of our capacities in west itself and that is how had been the trend for all the players. It is something like a pure commodity business, freight is major cost, so we do not see that as a challenge and we have done some working because it is more organized, it is not like ply where you do not get all the data. And if you see today the capacities are close to around 1.7 million CBM. And it added capacities also, it can go to somewhere around 2.5 in the next two-and-a-half to three years with all those added capacities which has been declared by the other players. And the way the market is growing today the demand actually also our estimate it is already around 2 million. So we do not see that as a challenge going forward in terms of demand supply issue. That why you do not know sometimes how the events unfold like, the pandemic I think has been a big boon for MDF business, it is a major transformation journey, which MDF will see because of the pandemic. And if you look at scale, China today operates more than 300 lines so on an internal assessment say China today runs more than 300 lines, in India we are today anything around 14 to 15 lines that is it, so we are nowhere when you really look at in terms of usage of the product.

**Moderator:**

Thank you. The next question is from the line of Mohammed Patel an Individual Investor. Please go ahead.



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**Mohammed Patel:** Sir, thanks for the opportunity. Sir, do we have the non-compete agreement in the MDF with Greenpanel?

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

**Mohammed Patel:** Do we have a non-compete agreement with Greenpanel in the MDF side after the de-merger?

**Sanidhya Mittal:** So, in our de-merger as I had mentioned in the past in the earnings call of quarter three FY2021 that our de-merger agreement has a non-compete clause for 7 years and it also said that or unless mutually agreed where both companies have mutually agreed and the non-compete and has been duly informed to the board and hence we have got approval from our board.

**Mohammed Patel:** And Sir, this 800 CBM per day, what is annual capacity, 250000?

**Manoj Tulsian:** 240000.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Karan Bhatelia

**Karan Bhatelia:** Thank you for giving me the opportunity to host the conference call. Any closing remarks Sir?

**Sanidhya Mittal:** I would like to thank you all for taking the time to participate in this call. We are happy with the efforts and progress we are making across our businesses and the results of our various initiatives. We look forward to speaking with you in the next conference call post our Q2 FY2022 result announcement. Thank you.

**Moderator:** Thank you. On behalf of Asian Market Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.