GPIL/2021-2022
October 29, 2021

The Manager
BSE Limited
Department of Corporate Services
Floor 25, P. J. Towers, Dalal Street
Mumbai-400001
Scrip Code: 542857

The Manager
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E),
Mumbai - 400051
Symbol - GREENPANEL

Dear Sir/Madam,

Sub: Conference call transcript

Please find enclosed Conference Call Transcript in respect of conference call for Investors and Analysts held on October 27, 2021, on the unaudited financial results of Greenpanel Industries Limited for the quarter and half year ended September 30, 2021.

The same is also being made available on the website of the Company at www.greenpanel.com/investor-conference-call-transcript/.

Thanking You,

Yours faithfully,
For **GREENPANEL INDUSTRIES LIMITED**

Lawkushprasad

(Lawkush Prasad)
Company Secretary & AVP – Legal
ACS:18675

GREENPANEL INDUSTRIES LIMITED KOLKATA

Encl.: As above

Greenpanel Industries Limited

Earnings Conference Call Transcript
October 27, 2021

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 and H1 FY '22 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 this conference call, please signal an operator by pressing '*' and 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 and H1 FY '22 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 maybe forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result presentation that was sent to you earlier. I would now like to invite Mr. Shobhan Mittal to begin the proceedings of the call. 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 Quarter-2 for the Financial Year 2022. I take this opportunity to wish all a very Happy Diwali in advance. I do hope that all of you and your families are safe and well.

Business momentum accelerated in Quarter-2 with the pace of vaccinations picking up. Net sales were up 87% year-on-year at Rs. 408.5 crore. Gross margins were up 30 basis points year-on-year at 56.5% as we took price increases to compensate for increase in raw material costs. EBITDA margins were up by 697 basis points at 28.2% due to operational leverage, continuous focus on superior product mix, and cost optimization. PAT is up by 265% year-on-year to Rs. 67.06 crore. Net working capital days at 14 days has shown a reduction of 21 days compared to the year-on-year quarter. Net debt has reduced by 129 crores during the quarter and stands at Rs. 229 crores as on September 30, 2021. We have prepaid four installments of the German bank, LBBW loan, amounting to € 8.91 million, that equates to Rs 78 crores during October 2021 and are targeting to be net debt free for the existing business during Financial Year 2023. I will now request Mr. Venkatramani to run you through the financials in greater detail.

V. Venkatramani: Good Afternoon everyone. I thank you all for joining us to discuss the Q2 FY '22 financial performance of Greenpanel Industries. I wish all of you and your families a very Happy and Safe Diwali.

In Q2, our top line increased by 87% at Rs. 408.51 crores. MDF sales grew by 102.4% at Rs. 335.34 crores and contributed 82% of the top line. MDF sales volumes grew by 66.9% at 1,37,044 cubic meters. MDF domestic revenues were 250.32 crore while exports contributed 84.70 crore. MDF domestic volumes were 92,144 cubic meters while export volumes were 44,900 cubic meters.

Domestic realizations were up by 19% at Rs. 27,167 per cubic meter and export realizations were up by 31% at Rs. 18,863 a cubic meter. Blended MDF realizations were up by 22% at Rs. 24,446 per cubic meter. Uttarakhand MDF unit operated at 94%, AP plant operated at 96% with blended capacity utilization of 95% for both plants. Plywood sales grew by 38.4% at Rs. 73.17 crore. Plywood sales volumes increased by 22.4% at 2.62 million square meter and the unit operated at 92% during the quarter. Plywood sales realizations were up by 13.41% at Rs. 279 per square meter.

In Q2, gross margin increased by 30 basis points year-on-year at 56.5%. Gross profit value increased by 88% at Rs. 230.90 crores as compared to 122.85 crores in the year-on-year quarter. EBITDA margins were up 697 basis points at 28.2% compared to 21.3% during the corresponding quarter. EBITDA in value terms grew by 148.3% at Rs. 115.29 crores compared to Rs. 46.43 crores during the corresponding quarter.

Profit after tax increased by 265% at Rs. 67.06 crore versus Rs. 18.40 crore in the corresponding quarter.

I will now move onto the performance details for H1 2022. During H1, net sales grew by 132.3% at Rs. 708.04 crores compared to Rs. 304.76 crores in H1 FY '21. MDF sales increased by 153.7% at Rs. 589.59 crores while plywood sales grew by 63.7% at Rs. 118.45 crores. Gross margins were up by 353 basis points at 56.4% compared to 52.8% in H1 '21. Gross margin value was up 147.9% at Rs. 399.19 crores against at 161.05 crores in the corresponding period. EBITDA margins were up by 1326 basis points at 26.1% compared to 12.8% in H1 FY '21. EBITDA in value terms increased by 373% at Rs. 184.52 crores as against Rs. 39.01 crores in the corresponding period. Post tax profits were up by 635% at Rs. 96.80 crore.

MDF sales volumes were up by 113.1% at 2,49,779 cubic meters with blended capacity utilization of the two plants at 93% compared to 40% in H1 FY '21. Dispatches for plywood increased by 50.2% at 4.37 million square meters as compared to 2.91 million square meters with capacity utilization at 77% compared to 50% in the corresponding period.

Our gross debt-to-equity ratio stands at 0.42 as on September 30, 2021, compared to 0.79 as on September 30, 2020. Net debt reduced by Rs. 147 crores during the half year to Rs. 229 crores as on September 30, 2021. That concludes my presentation.

I would now request you to open the floor for Q&A session. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Chirag Lodaya from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodaya: Thank you for the opportunity and congratulations on great set of numbers. Sir, my first question was on can you help us break up of North as well as South plants volume realization as well as margins?

V. Venkatramani: For the North plant, domestic volumes 41,579 cubic meters with realizations at 29,258. For the South plant, domestic volumes were 50,565 with realizations at 25,448. On the export front, North plant had 510 cubic meters at Rs. 33,630 per cubic meter and South plant had 44,389 cubic meters at Rs. 18,693.

Chirag Lodaya: Sir, in terms of margins, North as well as South?

V. Venkatramani: The Uttarakhand plant had an EBITDA margin of 27.84% and the Andhra plant had an EBITDA margin of 33.49%, but this included currency gains of 1.05%, so excluding that EBITDA margin for the South plant was 32.44%.

Chirag Lodaya: Sir, second question was looking at the current supply chain disruption overall what we are seeing in raw material inflation, what is your outlook on overall volume as well margin for H2?

V. Venkatramani: We expect to operate at full capacity utilization during the balance six months, and for a part of the period, we will also have the benefit of enhanced capacity, which is expected to be completed during Q3, so on existing capacity I think we will be above 100% capacity utilization in the second half of the year and on the enhanced capacity, we will probably be somewhere between 90% to 95%.

Chirag Lodaya: Since you will be adding 1,20,000 cubic meter in Q3 and you are saying that for H2 you will be able to utilize that capacity also at 90%-95%?

V. Venkatramani: No, that capacity will probably be available only for on a quarterly basis only for Q4, so probably in Q4 we should do somewhere between 90% to 95% of the expanded capacity.

Chirag Lodaya: Sir, on overall margins, how to look for H2?

V. Venkatramani: It will depend upon raw material prices. Till date, we have been able to take price increases to compensate for raw material increases, so it will depend up on how strong demand is in the future whether that will enable us to take further price hikes for further cost hikes.

Chirag Lodaya: But looking at current scenario, current margins are sustainable, is that understanding correct?

V. Venkatramani: Yes, that is right.

Chirag Lodaya: Just lastly Sir, bookkeeping question, what is the Forex element in the interest cost for this quarter as well as H1?

V. Venkatramani: For this quarter, we had currency gains of about 5.2 crore and for H1, we had currency loss of about 2.5 crore.

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

Udit Gajiwala: Sir, thank you for taking up my question and congratulations on great set of numbers, Sir could you explain that how has been the imports for the quarter of course and how do you see the competitive intensity panning out in coming years?

V. Venkatramani: Imports have taken a hit during the current year because of logistics issues, steep increase in ocean freight rates, and logistics cost, and also steep increase in international prices of MDF, so we have not seen much of imports into India during the half year ending September 30th and the short-term view is that the imports will continue to remain subdued for the balance period of the current year, but on a long-term basis we are expecting that imports could come back into the country whenever the logistics issues get resolved, so we are working with the Government for imposition of countervailing duty on imports. On the competition intensity, I think current MDF capacities in the country are about 2.3 million cubic meters and we expect that this will grow up to close to 3 million cubic meters by the end of FY ’25.

Udit Gajiwala: Sir, our price realizations that have been high, so of course for the balance year, the price might be, we will be able to maintain that following FY '20 to '23, where do you see realizations stabilizing for domestic and exports?

V. Venkatramani: I think if raw material costs remain similar, we will be able to maintain the realization and if raw material cost increase or reduce, we might take price increases or price reductions depending upon competition activity and future price hikes on account of raw material cost increases also depend on demand remaining strong in the domestic market.

Udit Gajiwala: Sir, last question, our existing capacity can operate to what kind of peak utilization level and the new capacity will be fully utilized by what period?

V. Venkatramani: Our existing capacity is 540,000 and we are going for a capacity increase, so post that our capacity will be 660,000 cubic meters, but again this is on a particular mix of products having different densities, so if there is any significant change in the density of the product manufactured, which would depend upon market demand, then capacity utilization could change.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Systematix Institutional Equities. Please go ahead.

Ashish Poddar: Many congratulations on strong set of performance in the current challenging environment, so my question is again very general in terms of demand outlook, so you mentioned that the current momentum will continue and it will even become more stronger as you are expecting capacity utilization to increase from hereon also and the margins which was the highest I think for you in the MDF segment, so my question is that over next two-three years' time frame, do you think that this 31% kind of EBITDA margin in MDF is sustainable or there are some favorable things because of that is little elevated currently and it should normalize to 28% kind of, so your comments on that?

V. Venkatramani: I think the current margins are sustainable subject of course to the condition that there are no major hikes in raw material cost, because any increase in selling prices will depend upon the demand environment, so if raw material costs go up steeply and demand environment is not strong, we might not be able to pass on the full extent of the cost increases, so to some extent it would be dependent upon demand conditions remaining strong, but we are hopeful in the current environment that we will be able to maintain the margins during the current financial year.

Ashish Poddar: In the plywood segment, was there any benefit of the cost inventory during the quarter or even in the plywood, this 15% margin is sustainable?

V. Venkatramani: In fact, our plywood margins in this quarter were about 13.6% and we will probably have to take some price increases to compensate for raw material cost hikes which we are not able to pass on in the second quarter, so we will probably look at some price hikes in Q3 depending upon demand conditions.

Ashish Poddar: So you are saying that there is a scope for improvement in the plywood margin, right?

V. Venkatramani: Yes, I think our sustainable margin should be around 14% to 14.5% for the plywood segment.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Thank you for the opportunity Sir and congrats on a very good set of numbers, just one clarification, in the last call you had indicated that the demand trends were not kind of picking up well around the July month or so, when you are talking about obviously we ended with a much better number also driven by better realizations as well, when you are looking at the current demand scenario, we seeing a month on month improvement right now, are we back to our old levels what we were when you are looking at September numbers or are we now surpassing that, so could we actually say that maybe Q3 could be like a peak quarter for us?

V. Venkatramani: I would say that demand conditions have improved month on month, so we saw improvement in August as compared to July and further improvement in September as compared to August, but there will be some impact of the festivals in Q3, I think the Durga puja festivals in October and Diwali in November, so perhaps we could not see any growth QOQ in Quarter-3, so I think a best case would be to maintain similar numbers as Q2 in Q3, so probably if there is any improvement that could happen in Quarter-4 where the increased capacity will also be available to us.

Prashant Kutty: Sir, typically like you have mentioned I think your MDF utilization levels are about 95%, I presume that because the July month was probably not that great, so when we looking at obviously September and all, should not we be actually looking a slightly better number going into because utilization will obviously kind of can get back to 100% levels as well because that is where we used to operate it around the Q4 levels, so I was just asking from that standpoint?

V. Venkatramani: I think probably you know Q3 again I think we should be around the 95% levels because of the impact of the festival season, but Q4 I think we should definitely operate at 100% of the existing capacity, but since we will be having the increased capacity available to us in Q4, I think capacity utilization will probably be somewhere between 90% to 95% of the expanded capacity.

Prashant Kutty: Okay, so Q4 our new capacity will actually come?

V. Venkatramani: That is right.

Prashant Kutty: Sir, one last question from my end, from the last quarter we have obviously seen realization improvement as well, are we also seeing a further improvement in realizations from here on, let us say for example the export market and all, may be looking at month on month numbers?

V. Venkatramani: I think we will see a small improvement in export realizations in Q3 as compared to Q2 because the full impact of the increased realizations was not there in Q2 as we had some old orders which were fulfilled in Q2. I think yes, we should see a small improvement in export realization and domestic realizations of course will depend upon raw material cost.

Prashant Kutty: Just one thing, because like you said that raw material pressure depend upon raw material pressure is obviously this quarter also you would have felt some raw material pressure, but obviously we have kind of made up for that the most to realization, are we seeing incremental in pressure on raw material, if we talk about let us say in the month of October and all because, we have actually seen across the Board energy prices and have all kind of gone up, so are we even seeing in our materials as well increase happening in the raw material front let us say in the month of October?

V. Venkatramani: Yes, we have seen increase in the chemical prices in the month of October also, so we have gone for another round of price increases in October, so October we will probably not get the benefit of that increased price, so that should be available to us from November.

Moderator: Thank you. The next question is from the line of Venkat Samala from TATA AMC. Please go ahead.

Venkat Samala: Sir, my first question is with respect to you know how are we planning further expanding our capacities beyond the Brownfield expansion that you have spoken about because the way that I am thinking about this Q4 you are expecting 90% to 95% capacity utilization of the enhanced capacity and this is about 120,000 CBN which essentially means that H2, so basically quarterly run rate in Q4 would be above 20% higher than what we are seeing in Q2 and will largely be running at full capacity utilization levels, exit Q4 or start of Q1 next year, so how are we planning to sort of cater to the higher demand that we are seeing?

Shobhan Mittal: Sorry can you please repeat that question slowly?

V. Venkatramani: He was saying capacity addition beyond this mat expansion that we are doing in Q3, new capacities?

Shobhan Mittal: This capacity enhancement that we are doing now, we will expect this to sort of come into full play by probably the second half of the next financial year and with regard to the new expansion or the new sort of substantial expansion that we are considering and made discussions with, we will only be able to give any concrete information towards the end of this financial year, I think in the Q4 call perhaps, we will be able to give you something concrete on that because it is still too premature and at a concept stage at this point of time, we are exploring locations, we are exploring the required capacity. We are assessing the markets, so any concrete information about that would only be available towards the end of this financial year.

Venkat Samala: Sir, just a follow up to that we are going to be zeroing on something for expansion say by Q4 exit, at the same time we are also expecting the enhanced capacity to run close to full capacity utilization level right by the end of this fiscal, so will it not be a little too late?

Shobhan Mittal: Not by the end of this fiscal, because I said towards the second half of the next financial year.

Venkat Samala: Sorry, my bad, maybe I thought that you know that enhanced capacity would be running close to full capacity utilization by Q4 of this year itself?

Shobhan Mittal: I am assuming your concern is that there will be sort of a lag between growth and availability of capacity, but I think we are okay because from the existing plant with the right product mix and fully optimized, we are still able to push out close to 110-112 odd percent, plus we will get this additional 20 odd percent, so there is still a growth margin available from our existing plans of up to 20%-25% which would comfortably take care of our growth requirements for the next year-and-a-half or so at least for the next financial year, and by that time, I am pretty sure we will be quite in advanced stage with a new expansion that we have in minds, so I think we should be okay.

Venkat Samala: Understood, so maybe it is just that I got it bad, when I heard it that enhanced capacity would be operating to full capacity utilization of Q4 of this year, so you are basically saying that will be running at full capacity utilization for the next year, right?

Shobhan Mittal: I think safe to say like the combined capacity including the new sort of enhancement that we are doing, that will be at full utilization levels towards the second half of the next financial year.

Venkat Samala: If I just look at the exports volume mix, we are between 25% to 30% for Q2, right so just trying to understand how is it trending at this point in time?

V. Venkatramani: The domestic market was impacted in Q1 and Q2 because of COVID, the dealer segment took time to recover, so to cover the gap we have pushed exports and the export volumes were almost 33% of the total MDF volumes in this quarter, so going forward I expect export volumes will be lower as compared to Q2 in Q3 and Q4 and if we look at the next financial year, I think probably export volumes on an yearly basis would be somewhere between 1,00,000 to 1,20,000 that would probably be our target for the next financial year. Our preference will always be the domestic market where realizations and margins are higher and exports will always be used as a balancing factor.

Venkat Samala: Sir, my last question is if I heard it right, you did mention that the South plant margins were ex of the foreign currency impact was also 31% versus North was around 27-28, so just trying to understand South where we have higher number of exports especially in the current quarter, how did we manage to have better margins than North?

V. Venkatramani: Our South plant capacity utilization was also marginally higher than North and because of the larger capacity that gives us benefit of scale which is now becoming visible and also the export realizations have improved significantly in this quarter as compared to Quarter-1, I think we have seen a growth of about 20% in export realization and domestic realizations have also been strong, so that has contributed to a higher operating margin for the Southern plant.

Venkat Samala: What kind of margins do we make on exports now versus the domestic with the higher realizations?

V. Venkatramani: About 16% to 18%.

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

Nikhil Agrawal: Sir, I wanted to understand like you source your major raw material for MDF is eucalyptus right, do you source it from plantations that are near your factory and I wanted to understand what is exactly the raw material cost because in an earlier con call you had mentioned that these farmers they have some tie up with you, so is the raw material cost very much in your control?

V. Venkatramani: We do not have any specific tie up with farmers directly because large part of the raw material comes from small farmers, so if we were to directly interact with all those farmers, it would mean that we would be interacting with anywhere between 1000 to 1500 farmers, so instead of that we have a system of contractors. We have about six to eight contractors across each plant who procure the raw material from the farmers and then supply to us, so we do not have any direct tie ups with the farmers, so basically we give targets to these contractors, either monthly or quarterly targets, and they also have incentives depending up on how they perform vis-à-vis the target.

Nikhil Agrawal: What are the raw material price hikes have been taken and the raw material cost they have increased quarter sales?

V. Venkatramani: So, if we look at wood cost, wood cost has seen a significant increase in the northern belt about 8% to 10% whereas in southern part raw material cost wood cost have remained relatively stable in an increase of about 2% to 3%, but the major increase has happened in chemical prices. So, wood comprises about 65% of the total raw materials, chemical resin the balance 35% and we have seen very sharp increases in the chemical prices depending upon the different chemicals. There have been price increases ranging between 25 you know if you look at a year or so there have been increases in the range of 25% to 100%.

Nikhil Agrawal: Just one last question what markets do you cater to the export market?

V. Venkatramani: Our export market primarily the Middle East then the neighboring countries in South East Asia then we are also supplying to UK, Korea, etc., and recently we have also received inquiries from Germany.

Moderator: Thank you. The next question is from the line of Aman Madrecha from Augmenta Research Pvt. Ltd.. Please go ahead.

Aman Madrecha: I just wanted to ask like we have already expanded the capacity for MDF, so what is the expected CAPEX over the next two years like any numbers of that?

V. Venkatramani: Like Shobhan Ji mentioned in an earlier question we have not finalized our CAPEX plan. So, those will probably get finalized during Q3 or Q4 and then we will be able to share the details with you.

Aman Madrecha: What was the amount of CAPEX incurred for expanding the capacity from 5,40,000 to 6,60,000?

V. Venkatramani: So, this CAPEX will primarily be incurred in this quarter for just the capacity expansion the cost will be around 20 to 23 crore and we are also adding some new machinery to reduce the wax consumption where there will be another CAPEX of around 20 odd crore. So, total CAPEX will be in the range of about 40 crore to 45 crore.

Shobhan Mittal: Sorry one caveat here please do not assume this cost of expansion of this 15%, 20% in proportion to the new plant I mean it is not linked at all this is a very small sort of expense to get this debottleneck our existing client.

V. Venkatramani: It is not really an expansion; it is more like debottlenecking. We will be adding some new machinery to reduce the processing time.

Shobhan Mittal: The investment to output ratio is very different when we install a new plant compared to this. So, this has got no relation.

Aman Madrecha: Sir, just one more question since the imports are struggling so like you have any outlook for the imports in MDF coming back since we had already expanded the capacity that you see in foreseeable future the imports again comeback then what would be the impact like on that?

V. Venkatramani: Considering the logistical issues in the current quarter, we are reasonably optimistic that there will not be any significant increase in import volumes during the second half of the current year, but if logistic issues get sorted out we could see increased import in the next financial year.

Shobhan Mittal: Do keep in mind that worldwide there is a substantial shortage of MDF across the world that is why even we are seeing inquiries coming from countries that we were never expecting to export to and for the primary importing countries into India South East Asia India is the least favorable markets. So, the silver lining is that because of the shortage across the world they would also be first looking at satisfying the requirements of the other markets the more lucrative markets before they start allocating capacities to India. So, I think in immediate future, immediate term we do not see any substantial threat from imports into India.

Aman Madrecha: So, sir why is India the least favorable market like it is because of the quality or what is the differentiator?

Shobhan Mittal: Well, it is primarily a pricing matter India acts as like a dumping sort of market for them because where in Europe prices are growing at €300, €350 a cubic meter. In India I mean people are buying imports at much lower cost less than $200. So, it is really like a market where they want to supply to fill capacity they do not really make any substantial money by supplying to India. So, always India has acted like a balancing market for them where if they have surplus capacity they allocate capacity to India.

Aman Madrecha: So, currently you are saying everyone in the world is struggling with the capacity on the MDF front?

Shobhan Mittal: Well, there is a shortage there is a substantial MDF shortage across the world and even in Europe mills have a backlog of order the order book is full till like for two years also. So, definitely there is a shortage of MDF across.

Aman Madrecha: And for us the domestic market is more lucrative than the export markets right?

Shobhan Mittal: Yes absolutely.

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

Nikhil Agarwal: I list you on the price increase in the wood cost quarter-on-quarter so can you just repeat back?

V. Venkatramani: What I mentioned was we are seeing an increase of 8% to 10% in the first half of the current financial year for the northern plant whereas in South India wood prices have been relatively stable helps in a small increase of between 2% to 3%.

Nikhil Agarwal: Can you just give me like the breakup for the demand that is that you cater to across India, do you cater only to the North and South or do you supply to the West and Eastern market as well?

V. Venkatramani: We supply pan India, but I would say approximately 40% of our volume come from South India about 37%, 38% from North India about 16% to 18% from Western parts and about 7% to 8% from Eastern India.

Nikhil Agarwal: And sir like this Greenply in the last quarter so they have announced a new capacity like they have announced that they are foraying into MDF business, so is there any threat to you?

V. Venkatramani: In fact, it is not a threat because if not Greenply possibly some other companies would have setup facility in Western India. So, we figured that it was better to give the permission to Greenply which is an organized and will not get into destructive practices rather than have an unorganized company coming up as a competitor.

Moderator: Thank you. The next question is from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.

Girish Choudhary: Firstly, if you can talk a bit on the volume mix in terms of the customers and also in terms of the product and as a follow up how much is the potential to improve or increase the mix which can add to your overall growth?

V. Venkatramani: So, if you look at the mix the mix has been quite good. We have a bouquet of value-added products in MDF which are basically the club grade, exterior grade, pre laminated MDF, wood floors and Veneered MDF and then we have the industrial grid MDF. So, in volume terms the industrial grid MDF contributed about 52% and 41% in value terms whereas the value-added products contributed 48% in volume terms and about 59% in value terms.

Girish Choudhary: And the mix in terms of customers so when I mean customers between retail versus OEMs?

V. Venkatramani: The mix remain more or less what we saw in Quarter 1. So, the retail contributed about 68% and OEM the balance 32% this is of the domestic volumes.

Girish Choudhary: And secondly on the working capital we have seen a mutual reduction and especially if I look at the receivable days it has come down to 11 days, so what would you attribute just to earn how much it is sustainable?

V. Venkatramani: I think the continuous focus on working capital has brought about improvement. Green Panel since its very inception and right from the time we entered the MDF segment, we have been focused on working capital performance. So, this is a work which has come across over a decade of concentrated focus on working capital.

Moderator: Thank you. The next question is from the line of Akshay Chadha from Canara Robeco. Please go ahead.

Akshay Chadha: So, one is on this margin improvement so what are the factors that have contributed to this margin improvement I understand that one of them would be the operating leverage and second would be the better realization in the international market exports happen to be the 20%, 30%, so what are the other reason that have caused improvement in the margin and secondly sir did mention that internationally there is a shortage of MDF, so sir any reasons what has caused this shortage these two things?

Shobhan Mittal: So, I will do the second part first. The shortage is basically what has resulted during in the pandemic of course most of the mills have shut down. So, there is obviously like some pentup demand that is across in the markets across the world, but also new expansions were not taking place. So, the plan in MDF plans takes close to two years from a point of conception to come online. So, during this period obviously there was no expansion stake taking place and with the markets opening up and with the increased focus of people especially on spending at home renovations and building and this created a sort of sudden sort of surge in demand for which means you are not ready for and now new plants are not yet coming on line. So, now you are seeing the cycle where new orders for new plants are being placed by people and I think it is a process of two odd years before that sort of neutralizes the additional demand.

V. Venkatramani: Coming to the first question on the margin front so like you mentioned operational leverage, improvement in export realization, improvement in domestic realization, improvement in the mix of value added products and impact of price increases you know apart from the regular price increases we have also done some price corrections in the OEM segment, so earlier OEM prices used to be at a discount of about 8% to 10% compared to retail prices so we had reduced that to between 4% to 5% which also has helped to improve the realizations and the margins.

Akshay Chadha: So, sir is it fair to assume that the prices hike that we have taken are little higher than the raw material inflation and hence some element of margin improvement is coming from there also?

V. Venkatramani: No, if you look at the direct price increases they have just about covered raw material cost because our gross margins have gone up by only 30 basis points. So, it is primarily the operational leverage and focus on wastage reduction which has helped to improve the margin.

Moderator: Thank you. The next question is from the line of Devang Patel from NAFA AMC. Please go ahead.

Devang Patel: Sir, given the international price increase and domestic price are we seeing given the supply demand scenario, are you seeing the reduction in gap between the domestic prices and international prices and the second question is like what is our current OEM mix in terms of revenue and how many dealers we have added this quarter?

V. Venkatramani: So, if we look at OEM dealer mix, retail is about 68% of the domestic volume and OEM balance 32%. If we look at improvement in realizations, year-on-year domestic realizations have gone up by from 22,400 to about 27,170 and export realizations have gone up from 14,300 to 18,800. So, yes it is a mix of the price increases we have taken to cover raw material cost, improvement in international prices and also improvement in the mix of value-added product.

Devang Patel: Also the average realization numbers for the domestic market are not directly comparable with the ones for the export market because the domestic market is an average of a little bit of floor range and all the different grades that we produce the club grade, the high grade and the low grade whereas the export segment it is primarily the standard grade product that goes. So, it is not a very fair comparison to take if you are comparing I mean the right comparison would be to take the standard grade of export versus the standard grade of domestic?

V. Venkatramani: Then in that case I think the fair comparison would be that domestic prices for the industrial grade would be between 21,500 to 22,000 whereas international prices are now close to 20,000 per cubic meter.

Devang Patel: And how many dealers we have added this quarter?

V. Venkatramani: Overall in the first half of this year we have added about 250 dealers.

Devang Patel: Sir, just wanted to understand also one macro question is in terms of MDF given that it is widely used for furniture, given the versatility and durability of the product beyond furniture are you seeing any other scope for which MDF can generally be used for example there is now a lot of wood based solar panels which are coming up across the world in various parts, so can MDF be used for things apart from furniture and so what are they?

Shobhan Mittal: MDF it is already a fairly versatile product it is not only used for furniture I mean especially in India there are multiple uses of MDF, people are using it for photo framing, people using it for handicrafts and for packaging etcetera. However, the specific requirement that you are saying solar panels I mean MDF will not be suitable for that product because I am assuming that would be like a WPC based product or waterproof product like a solid timber. MDF would not be suitable for solar panel kind of a product because that is susceptible to the natural elements and the MDF would not be suitable for that particular thing, but otherwise MDF is already being used for, at least in India, for many, many other products and the usage continues to grow avenue where MDF was not previously being used, people are adapting that and obviously replacement of plywood is also happening at the same time people were not comfortable using MDF initially in wet areas like kitchens now products are available that are far more superior resistant to water. So, expansion of usage within India is happening as well a lot of it.

Moderator: Thank you. The next question is from the line of Jashith Jain from Sincere Syndication. Please go ahead.

Jashith Jain: As have been earlier pointed out so in the couple of months back in an entry there is a potential scope or growth and the MDF can replace the segment called low quality plywood it is said to be the 2500 crore of markets. Currently the MDF it is about 2,500 crore so potential market is down line about next two to three years is about 5,000 crore, currently even we have been considering that new capacities is coming in next one quarter, say to be in this quarter so our conservated capacity in MDF it should be about 6,60,000 cubic meter so what is the potential market size for MDF in terms of volumes today we are obtaining a good more than 40 we are having market share of about in between 35% to 40%, how are we going to retain this in next two years so what kind of volume growth that we can expect in this particular segment that is my first question in order to meet that demand what is the capacity of planning I hope that have stated the CAPEX announcements will be there in about two to three months if you can provide some rationale in terms of market what we are going to maintain that can make sense that is my first question. Second thing is that the first two quarters in between 122 and 134 cubic meters so they have done in terms of MDF as you stated earlier we have been maintaining the same level of Q2 in between 130 in Q4 planning to add about 85% to 90% capacities so about 225 so can consider that we can end up with in between 585 to 610 cubic meters of volumes by this financial year along with the realization between 22,000 to 23,000 if my understanding is correct please correct me if I am wrong anywhere. Third question should be what will be the sustainable margins that we can expect, non-CAPEX what is the dividend payout ratio that we are going to incrementally going to reward to the shareholders?

V. Venkatramani: Your first question regarding capacity utilization so like I mentioned we will probably be close to 100% of the existing capacity in Q3 and between 90% to 95% of the expanded capacity in Q4 so that is our estimates for the second half of the current financial year. Margins as already replied we feel that the current margins are sustainable provided we are able to take further price hike to compensate for any future increase in raw material. We have already taken a price hike in October to compensate for raw material cost increase in September and October and future price hikes would depend on whether demand conditions continue to remain favorable and on the capacity front regarding substantial expansion like Shobhan Ji already mentioned we will probably be taking a decision on that during Q3 or Q4.

Jashith Jain: MDF is replacing that lower grade plywood it is said to be about 2,500 crore of markets what is the volume size?

V. Venkatramani: Our estimates are that cheap segment plywood is about 4,500 to 5,000 crores not 2,500 crores and volume estimates not available because it is completely unorganized market and they have a lot of invoicing practices due to which this is not possible to estimate volumes or the realizations from that grade of plywood, but the market size is somewhere between 4,500 to 5,000 crores. I think a large part of that could be converted into MDF for the next four to five years.

Jashith Jain: Down the line we can expect that Green Panels can sustain about in between 35% to 40% of the markets are including the replacement of cheap grade plywood?

V. Venkatramani: No, that of course would depend upon capacity expansions decisions we take in the future. So, I would not like to comment on that at this point of time.

Moderator: Thank you. The next question is from the line of Kedar Kailaje from Fortress Group. Please go ahead.

Kedar Kailaje: So, first is regarding your you gave your OEM retail mix so in terms of OEMs are you seeing increased orders on the likes of IKEA and companies these because they are also expanding very rapidly and within OEMs what is the percentage of top 10 customers for you that will be my first question and secondly Green Ply has mentioned that they see MDF as a regional market, so do you also foresee the same over the long-term so those would be my two questions?

V. Venkatramani: We are not supplying directly to IKEA so they maybe procuring finished goods from some of the venders who are procuring MDF from us. So, we are not aware of whether that is happening but we estimate that should be happening, but we do not really have any concrete information on that account and yes MDF will be a regional product because it is a bulky product with low value realizations, approximately 45% to 50% of premium plywood and freight costs form an important cost element in MDF. So, yes MDF will be a regional product and yes, I would like to look at a future where we have plants across all the four geographical regions.

Moderator: Thank you. The next question is from the line of Chirag Lodha from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodha: Sir, what kind of export volumes we were looking for this financial year FY22?

V. Venkatramani: We have achieved export volume of about 80,000 in the first half and I think we will probably be looking at something around 60,000 in the second half of the financial year.

Chirag Lodha: And in terms of domestic volumes will we be able to cross last year H2 domestic volumes?

V. Venkatramani: At this point of time, I think we will be able to cross last year domestic volumes.

Chirag Lodha: Is there further scope to improve North plant margins or these are the optimum margin we can get in North plant?

V. Venkatramani: I think we are reasonably close to the optimum margins in the Northern plant. So, possibly we could see some improvement after the capacity increase.

Moderator: Thank you. The next question is from the line of Aksh Vora from Praj Financials. Please go ahead.

Aksh Vora: Sir just wanted to know what is the growth rate over the last two years for MDF like in CAGR terms?

V. Venkatramani: Last two years we do not have much data on how fast MDF has been growing specifically, but over the past three years I think MDF has been growing at a CAGR of around 15%.

Aksh Vora: Also, we have currently 35%, 40% of market share do we envisage many competitors coming in near future or what is the feel on that factor?

V. Venkatramani: Current capacities of MDF in the country around 2.3 million cubic meters and we estimate that will reach 3 million cubic meters over the next 3 years.

Aksh Vora: Sir, what would be a Greenfield capacity to put up a 100 1 lakh metric ton cubic meter?

V. Venkatramani: Are you saying the cost.

Aksh Vora: Generally, if a Greenfield plant has put up for 1 lakh cubic meter, what would be the cost for that?

Shobhan Mittal: Continuous press plant of 1 lakh would be very small actually to be honest with you it would not make economic sense. I think the smallest one would probably be around 2 lakh cubic meters with a continues press and I think at the current scenario could be looking at a 350 to 400 crore investment number.

Moderator: Thank you. The next question is from the line of Karan Bhatelia from AMSEC. Please go ahead.

Karan Bhatelia: Sir all the MDF players now have a very robust portfolio with respect to water resistant or water proof MDF, but still if you see the penetration level in East market is not very encouraging, so how can we look at East as a market?

Shobhan Mittal: I think East is still immature in terms of MDF comparatively, but at the same time focus on a market has given good results. If you look at the North East at least for us it has become a very lucrative market because market penetration and basically education of users has resulted in a very positive sort of outcome for us. So, I think in the long run it very eventually happen of course you are right it is the slowest in terms of acceptance of MDF compared to the other parts of the country, but I think it is a more like a psychology thing and in the long run we do not foresee that to be a problem because the trends follow the same kind of architects working across the country and carpenters also pick up trends from other markets. So in long run we do not foresee that to be a challenge that the East will not accept or it will be needed to remain out of the market.

Karan Bhatelia: And just one bit of confusion so the expanded capacities of 6.6 lakh will it be commissioned by the third quarter of this year or the second half of next year some confusion on that?

V. Venkatramani: The commissioning will happen this year, but we are expecting optimal utilization by the second half of next year.

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: Thank you everyone for joining this call. We hope call has been useful for everyone if anyone has any further questions feel free to reach out to us and we will be happy to answer them and we look forward to speaking with you again at the next call at the end of next quarter. Thank you very much.

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

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.