Greenply Industries

Q3FY15 Earnings Conference Call Transcript
February 06, 2015

Moderator Ladies and gentlemen, good day and welcome to the Greenply Industries Q3FY15 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. 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. Varun Divadkar of CDR India. Thank you and over to you sir.

Varun Divadkar Thanks. Good afternoon, everyone and thank you for joining us on the Q3FY15 results conference call of Greenply Industries Limited. We have with us today Mr. Shobhan Mittal – the Joint Managing Director & CEO and Mr. V. Venkatramani – the CFO.

Before we begin, I would like to state that some of the statements in today's discussion may be forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q3FY15 results presentation that has been sent to you earlier. I would now invite Mr. Shobhan Mittal to begin the proceedings of the call.

Shobhan Mittal Thank you Varun. Very warm welcome to everyone present and thank you very much for joining us today to discuss the operating and financial performance of our company for the third quarter and 9 months ending 31st December 2014.

At the outset, let me touch upon the recent demerger of the decorative business which we completed during the quarter under review. This will enable Greenply to greater focus on its core business and leverage its strength towards improving market reach and better cash management and utilization to drive growth. All the financial comparisons made going forth in my opening address are post the demerger based on the pro forma numbers.

We have delivered a good performance this quarter, delivering a growth of 19% year-on-year in net sales to Rs. 391 crore in an environment which continues to be challenging. The growth has been achieved mainly through market share gains from the unorganized segment. We believe the strength will continue and is reflection of a proven quality, strong brand portfolio, and well-developed distribution network spread across the country.

In terms of the segments wise performance, the plywood segment recorded a growth of 12.6% to Rs. 279 crore. Utilizations continue to be strong at 100%. We are moving towards an asset-light model for plywood wherein the future growth will come through the outsourcing route at higher ROCEs. Mid-segment variance will be outsourced. Freeing existing capacities for premium wherein we will deploy teams on vendor sites to monitor quality of inputs and ensure consistent quality for these products. We are targeting to increase proportion of outsourcing from 18% currently to 30% over the next 3 years. Our MDF business has made good signs during the quarter, recording a growth of over 38% year-on-year to Rs. 112 crore during the quarter. The segment accounted for 29% of net sales, up from 25% a year ago on the back of increasing customer preference. Utilizations improved to 100% from 73% a year ago. Aside from better volumes, increasing of premium offerings like pre-laminated MDF boards and exterior grade MDF boards has contributed well to our performance in the segment.

Given our leadership position and capabilities, we are optimistic that this will be a key growth driver going forward. Gross margins saw an improvement of 60 bps in Q3FY15 to 42.4%, driven by higher volumes in MDF. EBITDA excluding forex fluctuations increased 6% year-on-year to Rs. 49.7 crore. EBITDA margins saw decline of over 150 bps year-on-year to 12.7% in Q3FY15. This decline was mainly on account of the aggressive investments made in advertising and promotion during the quarter.

Advertising and promotion expenditure saw a 145% year-on-year increase to Rs. 10.5 crore during the quarter and stood at 2.7% on net sales as compared to 1.3 during the same period last year. We will continue to invest around 3% on net sales going forward towards advertising expenditure with the aim of increasing our brand visibility and recall**.**

Net profit for Q3FY15 saw a 32.6% year-on-year increase to Rs. 26 crore. We are focused on driving profitable growth. Over the last one year, we have taken several initiatives to ensure a tight control over our inventories and better management of debtors. Our working capital cycle has seen a 4-day improvement over the last year to 48 days, driven by a 16-day improvement in inventory days. This has led to strong cash generation during the last 9 months of the year to the tune of Rs. 150.08 crore as compared to Rs. 85.16 crore during the corresponding period last year which has helped bring us down our net debt-to-equity to 0.77 as on 31st December 2014 as compared to 1.1 as on 31st December 2013.

To conclude, we are enthused by our performance this quarter and believe we are well positioned to capture the enormous opportunity once environment turns more favorable. We are focused on strengthening our distribution reach and improving our product portfolio with higher margin variance of plywood and MDF going forward. We are also undertaking various measures to increase our organizational competencies and upgrading our IT infrastructure which will help us to have better control over our supply chain. I will now like to hand over the call to Mr. Venkatramani for brief summary of our financial highlights.

V. Venkatramani Dear friends, I thank you for participating in this Q3FY2015 Earnings Call for Greenply Industries Limited. The financial highlights for the quarter were as follows:

Net sales grew by 18.9% at Rs. 390.52 crore compared to Rs. 328.39 crore in the corresponding quarter. Net profit was up by 32.6% at Rs. 26.14 crore as against Rs.19.71 crore in Q3FY14. Operating profit was up by 6.04% at Rs. 49.68 crore, although operating margins fell by 155 basis points due to an increase of 140 basis points in advertisement expenditure. Net profit margin was 6.69% compared to 6% in the corresponding quarter and EPS for the quarter was at Rs. 10.83 compared to Rs. 8.17.

Plywood and allied products had a growth of 12.6% at Rs. 278.7 crore and contributed 71% of the revenue. MDF had a growth of 38.39% at Rs. 111.96 crore and contributed 29% of the revenue.

The highlights for the 9 months of the current financial year:

Net sales were higher by 11.74% at Rs. 1,132.16 crore. Net profit was higher by 39.3% at Rs. 76.25 crore. Operating profit was higher by 8.75% at Rs. 147.12 crore. Operating margin fell by 35 basis points at 13% compared to 13.35%. Net profit margin for the 9 months period was 6.74% compared to 5.4% in the corresponding period and EPS for 9 months was Rs. 31.59 against Rs. 22.68 for the corresponding period last year.

The segment-wise revenue breakup for 9 months:

Plywood was higher about 12.11% at Rs. 842.22 crore and contributed 74% of the revenue. MDF was higher about 10.88% at Rs. 290.43 crore and contributed 26% of the revenue.

Some financial ratios:

Net profit to sales was 6.74 versus 5.4, interest to net turnover was 2.43 versus 2.78, operating margin EBITDA was 13% against 13.35, debt equity improved to 0.77 versus 1.05 and working capital cycle improved by 4 days to 48 days.

The business highlights for the quarter:

A 4.6% reduction in plywood production to 8.09 million square meters. Average capacity utilizations were 100%. Sales volumes registered an increase of 7.59% at 11.05 million square meters. Realizations in plywood improved by 6.99% at Rs. 245 and operating margin fell by 370 basis points to 8.1%.

Highlights for MDF:

MDF production grew by 35.78% to 44,808 cubic meters. Sales volumes registered a growth of 40.2% at 44,379 cubic meters. Capacity utilizations were 100% compared to 73% in the corresponding quarter. Realizations fell by 1.37 at Rs. 25,172 per cubic meter and operating margin improved by 226 basis points at 24.15% compared to 21.89%. I thank you once again for your participation and request the moderator to open this call for questions. Thank you.

Moderator Sure sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar I am sorry if I missed this in your opening remarks. Your ply margins seem to have come off by about 100 bps this quarter. Was it something seasonal or is it structural and do we see this reviving, getting back to normal levels in the coming quarters starting Q4?

V. Venkatramani So like I said, plywood margins were lower in the current quarter primarily due to a higher provision for advertisement and sales promotion expenditure in the current quarter which was 2.7% of sales as compared to 1.3% in the corresponding quarter of last year. But to some extent, plywood margins have been under pressure in the current year whereas our operating margins have been at 9.3% for the 9 months period compared to 10.2% last year.

Baidik Sarkar	So that helps. So given that you mentioned you will maintain your sales expenses about 3% of revenues, is it right to assume that this is the new margin profile for your ply segment, could that be a fair assumption?
V. Venkatramani	Like I had guided for an overall margin of about 10% for plywood in the current year, so I think for the current year, we will be able to maintain the operating margins at 10%.
Baidik Sarkar	And going forward sir, can you maintain this 10% for FY16?
V. Venkatramani	I should think so. I think overall next year we can expect an improvement of 50-70 basis points.
Baidik Sarkar	And coming to the MDF, you got a great run in this quarter. Could you throw some color on what led to the revival on the ground and is it sustainable or is it just a blip?
Shobhan Mittal	No, we were able to gain some inroads in the cheaper plywood segment because plywood prices in the past quarter have corrected a little bit and the effect has gone on to the cheaper plywood segment as well. So this led us to compete in that segment again where we had earlier out-priced ourselves and also by the fact that we offered some incentive schemes on a cheaper grade of MDF on a lighter density MDF which helped us gain some market strength in the cheaper plywood segment and increased our utilizations of the plant.
Baidik Sarkar	Just for my qualitative understanding, what is the rate differential between the cheaper plywood and the MDF?
Shobhan Mittal	It is a very wide gamut in terms of the cheaper ply segment, but I would say that starting from the bottom category, we would be at par or at a slight premium over the cheapest plywood segment, but that happens to be a very large market segment.
Baidik Sarkar	And lastly sir, given that we have already had 100% capacity utilization for MDF and ply you got about 110-120 for a while, what kind of volume growth can we cater to in the coming year, FY16?
Shobhan Mittal	You can look at an overall growth of 10%-12% through slightly better volume utilization and through better product mix realizations.
Baidik Sarkar	So the expectation for the coming year is 10-12 which is value plus volume, is it?
Shobhan Mittal	Correct.
Moderator	Thank you. Our next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.
Achint Bhagat	Sir, firstly wanted to understand that you have posted 7% volume growth in the ply business in this quarter. What would be a sense of industry growth, has industry grown in the same rate and what has facilitated your market share gain?
V. Venkatramani	Achint, thank you for joining the conference. If you look at the plywood segment, I would say there would have been an overall degrowth in the plywood segment if we consider the entire plywood market and our volume growth has primarily come from the unorganized segment.

Achint Bhagat And so when you say that the market has declined, what do you think has changed from say last year till now due to which the market has witnessed a slowdown. Has the housing construction come off or is it real estate inventory? What is it that is keeping demand low and how do you expect a revival to..

V. Venkatramani I think that is primarily the unsold inventories in the real estate segment which is contributing to the lower volumes.

Achint Bhagat And sir secondly on your plywood margins because I think you increased realizations very close to about 7% in this year and we keep on hearing about price hikes from our channel checks and input costs specifically Phenol and Formaldehyde has fallen sharply, we understand by about 50% this year. So what is it that has apart from A&P, what is it that your margins have not expanded because your competitors have shown very sharp margin expansion.

V. Venkatramani First, I will come to our raw material cost. So if you look at Phenol and Melamine which are basically derivatives of crude, they form a very small proportion, I would say, approximately 10% of the plywood raw material cost and since you carry inventories, it takes some time for the benefit to be reflected in the margins. So I think possibly there would be a slight impact in Q4 when we start consuming fresh inventories, but impact would be marginal primarily because of the low element of Phenol and Melamine in the plywood raw material cost. And as you said versus competition, I do not have the exact breakup of their plywood and allied products sales. But I would assume from the information from market sources that the face veneer sales both from Myanmar as well as Calcutta has primarily contributed to the improvement in their margins.

Achint Bhagat So that brings into my third question that of face veneer. So sir how has face veneer prices reacted and are you seeing that the unorganized sector is still facing a challenge or there are new sources which are cropping up from where people are sourcing face now?

V. Venkatramani At the moment, I would say the bulk of the plywood industry especially the premium and the mid segment is using the Gurjan Face Veneer. That is why because of the shortage, prices of face veneers have appreciated by about 25%-30% during the current year. But as far as Greenply is concerned, we have set up this unit in Myanmar primarily for raw material security and we will have only 6 months of operations at Myanmar during the current financial year. So it will have only a marginal impact on our topline and bottomline for the current financial year.

Achint Bhagat So if I were to think of it in the previous setup wherein you would import timber into the country and then peel it into face as against importing face directly into the country that is no change in your cost structure, is that the right way to understand?

V. Venkatramani No, I would think there would be some minor benefits in importing face veneer as compared to wood imports from Myanmar because freight element reduces as compared to freight of wood but I think that will have some time impact before we get that benefit.

Achint Bhagat Okay and then on to my last question sir in terms of core timber. Sir your core timber requirement is completely domestic or is that some import component is there?

V. Venkatramani We have a very small import component, I would say it would possibly be less than 10%, primarily it is from the domestic market.

Achint Bhagat Okay and have you seen any reduction in core timber prices also?

V. Venkatramani No, we have not seen any reduction in core timber prices.

Achint Bhagat And your Myanmar capacity is where you can cater to 100% of your capacity, is it, 100% of the ply?

V. Venkatramani Yes, definitely. I think if we look at the current scale of operations, we still have some surplus capacity at Myanmar. Out of the total 42 million square meters, we would possibly be consuming about 20 million at the current level of operations and I would estimate possibly about 24 million at peak production.

Achint Bhagat Okay sir and you would have still about 16-18 million square meters of spare capacity in Myanmar.

V. Venkatramani Yes, but that I think would not be of the premium grade. So when you peel wood you would get face veneers of premium as well as lower grade. So I think we will continue to consume the premium grades and sell the cheaper grades in the market.

Moderator Thank you. The next question is from the line of Nandita Parker from Karma Capital. Please go ahead.

Pulkit Hi sir, this is Pulkit on behalf of Nandita. Sir I just wanted to know from you if you have any expectations as an industry from the upcoming budget?

V. Venkatramani Not really, I think the Finance Minister has very little leverage to give any substantial benefits to the industry. So possibly we could see some minor changes here and there but nothing substantial.

Pulkit Okay and sir if you look 2 to 3 years ahead, what would you suggest are the major drivers for the company in terms of revenue?

V. Venkatramani rImprovement in secondary sales in the real estate segment because once demand picks up, it is easier to pass on cost increases and also possibly improve the product mix in the margins.

Moderator Thank you. Our next question is from the line of Priyank Singhal from Bajaj Allianz. Please go ahead.

Priyank Singhal I just wanted to know that is there a reason why our growth rates are actually on the lower side in the plywood segment compared to Century over the last few quarters, is it more of a temporary blip because we were undergoing the demerger process etc. and maybe at the same time, our A&P expenses were also on the lower side, was that the reason that we have lost some market share to Century or you did something more sustainable, I am just trying to understand and I am just looking in the last few quarters where they seemed to have grown their plywood sales much faster.

V. Venkatramani Priyank, Venkat here. I had a chance to look at the breakup of Century's plywood and allied products breakup for the first half. I still do not have the breakup of this plywood and allied product sales for the third quarter but in the first half, we were about 10% ahead of Century in plywood numbers. So their growth has primarily come from the face veneers segment.

Priyank Singhal Okay, my understanding was that even in plywood they are growing faster than us, but you are saying that is not the case and in MDF till last quarter, we were practically degrowing in MDF. So I just wanted to understand that in this quarter we had a sort of very phenomenal change in trend compared to what we have seen over the last several quarters, is it a more one off kind of a thing or you think that the demand environment changed for the end use of MDF?

Shobhan Mittal No, I would not see demand to remain challenging. We have taken some initiatives with regards to product offerings and also some schemes in the market which has allowed us to be more competitive in that segment and also compete with some of our cheaper price competitors. So raw material prices have also been slightly favorable for us to take such action, so I would say that the demand scenario would continue to remain challenging but we should be able to maintain our quantities because also like I said earlier, the cheaper plywood segment has been faced with the challenge of increase in face veneer prices and that has resulted in then having to pass on the cost increase to the customers which has made our MDF a little more attractive for them as well.

Priyank Singhal And the interventions on the market place, you are talking about is that we have run some promotions, some schemes, taken some price cuts tactically etc. right?

Shobhan Mittal Yes.

Priyank Singhal But even then at the EBITDA level, obviously the margins are higher because of operating leverage benefits. So am I right to assume that going forward if we are able to push through volumes without any damage to our EBITDA margins, we are likely to continue with some such strategy and therefore going forward, the outlook for MDF would be better?

Shobhan Mittal Yes, you can say so, yes.

Priyank Singhal In terms of the A&P spend increasing to 3% on a sustainable basis, what are the underlying reasons for that? I am assuming that since you are saying that we did not lose share to Century that is not the reason why we are increasing our ad spends going forward. So I just wanted to understand the rationale for that in that case?

Shobhan Mittal Going forward, the market continues to remain challenging and the reason why we want to be a little prominent and more aggressive in our ad spends is to continue because with the changing market scenario, demand would always be same and we want the requirement for the additional spend to keep growth in place.

Priyank Singhal Also you mentioned that incremental growth on the plywood side would come through the outsourcing route. I just wanted to understand how this outsourcing model would work and how much impact could it potentially have on a gross and EBITDA margins but at the same time, obviously it will help us below EBITDA but I just wanted to understand the strategy and where these suppliers are based etc. and typically on the whole how would it sort of change our ROEs, ROCEs going forward?

V. Venkatramani If you look at outsourcing strategy, we have been purchasing from about 6-7 suppliers pan India and it is in the mid segment plywood where prices are approximately about 40%-50% cheaper than the premium segment. Just to give you an example, premium plywood prices are about Rs. 260 per square meter whereas the mid segment plywood price cost about Rs. 170 per square meter and that is the faster growing segment in the market. So we want to be present in that segment and while it will be difficult for us to meet the requirements of that segment from our manufacturing facilities, it is easier for us to be present in that segment with the outsourcing strategy. As far as margins are concerned, operating margins are low for the outsourcing segment, I would say approximately 200-225 basis points lower than the operating margins for the manufacturing segment but it will have beneficial impact on the ROCEs primarily because there is lower investment in working capital, and there is no incremental investment in fixed capital. So I would say ROCEs for the outsourcing segment would possibly twice what we have in the manufacturing segment.

Priyank Singhal So does it mean that incrementally we will not have any fresh CAPEX on the plywood side and except the Andhra facility that you have talked about on the MDF side, there would not be too much of CAPEX at the company level, is it?

V. Venkatramani Yes, I would say that we are not looking at any expansions in plywood in the foreseeable future. We will continue to grow the plywood segment through the outsourcing route and possibly we could have about Rs. 10-15 crore of maintenance CAPEX for the existing business comprising plywood and MDF. And regarding the expansion and MDF in Andhra Pradesh, we are currently going through a process of approvals and environmental clearances which we expect to be completed by the end of Q1 of next year. So I will be able to give you a better idea of capacity and investment plan for that plant possibly around July 2015.

Priyank Singhal So there would not be too much CAPEX on Andhra facility in FY16, is it?

V. Venkatramani Yes, I do not think there would be too much, possibly we would be making some advance payments to the vendors for them to start the manufacturing process but I would estimate it should be possibly somewhere between Rs. 30-50 crore.

Priyank Singhal Whenever the plans get finalized.

V. Venkatramani That is right.

Priyank Singhal So for FY16, it is over and above Rs. 15 crore replacement CAPEX, what would be some other CAPEX or that would be the only CAPEX for 2016?

V. Venkatramani That should be the only CAPEX.

Priyank Singhal And last question from my side is in your presentation, you mentioned about some backward integration in Myanmar, could you throw some light on that what exactly are we likely to do over there?

V. Venkatramani So we have already operational for manufacturing face veneers in Myanmar. We started the plant in October and we expect to have a full capacity utilization of possibly around 90% in the next financial year and we will also be setting up a small plywood facility in Myanmar which will possibly be operational in FY17.

Priyank Singhal How much CAPEX would be required for that?

V. Venkatramani We have not really worked on the numbers but it is likely to be a small one because we are planning something around 2 million square meters.

Moderator Thank you. We have the next followup question from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat Sir I just wanted to understand your forex policy. So what is your foreign currency outstanding currently and what is your forex policy in terms of whether you hedge it or keep it open?

V. Venkatramani As far as raw material imports are concerned, we hedge every single purchase. So at the moment if you look at the forex position, I would say we had covered up to a level of about 95% as far as exposure in US dollar is concerned and approximately about 85% in euro, although euro is a very small component in our total imports.

Achint Bhagat And what kind of foreign exposure do you have apart from raw material imports? Do you have any ECB debt or anything?

V. Venkatramani Yes, we have some ECA as well as some ECB debt. So there we have them open expect for some interest swaps which we have taken.

Achint Bhagat So if my understanding is correct, now you would be importing only chemicals, right because face anyway is coming from your own subsidiary, is there any buyer's credit is what I am trying to get at?

V. Venkatramani See a part of this buyer's credit but that is only where we open a site LC which is payable immediately. So there we take a buyer's credit. So in any case, we do not extend any letter of credit beyond 180 days. We do not take normal buyer's credit after the original 180 days of credit.

Achint Bhagat What all are you importing into India right now?

V. Venkatramani So we are importing face veneers, some core veneers, a small part of our chemical requirements and also some plywood from China and some paper for the pre-laminated MDF boards.

Moderator Thank you. Next question is from the line of Abhishek Ranganathan from Phillip Capital. Please go ahead.

Abhishek Ranganathan Sir particularly on the mid segment is what I came to understand is you mentioned that you will be focusing on outsourcing. On the SKU additions and branding and market penetration of this category, what is the strategic initiative which we have or the roadmap rather which we have in place for making more inroads in this particular segment?

V. Venkatramani So we do not have any branding as far as the mid segment plywood or the outsourced plywood is concerned. So what we do is to make it more attractive, we have schemes for carpenters and architects but no above the line activities like electronic or print media. That is likely to be the strategy going forward also.

Abhishek Ranganathan Basically it will be all under the same existing brands?

V. Venkatramani No, if you look at it, we have Greenply and Optima Red for our manufactured plywood and Ecotec for our outsourced plywood.

Abhishek Ranganathan So basically Ecotec may be something you should grow over a period of time faster **V. Venkatramani** Yes, I would say approximately about 25%-30% on an annual basis.

Abhishek Ranganathan And then what rate is it growing right now?

V. Venkatramani I would say around the same proportion. If you look at the 9 months in the current year, so we had a volume growth of about 30% in the Ecotec segment.

Abhishek Ranganathan For 9 months.

Management That is right.

Abhishek Ranganathan And what would it be for the Greenply and Optima?

V. Venkatramani Volume growth was about 3% overall. So if we take out, there would be a degrowth of about 4% in Greenply and Optima.

Abhishek Ranganathan What percent of this mid segment forming of the turnover?

V. Venkatramani If we look at mid segment, it contributes about 27% in volume terms and 19% in value terms.

Abhishek Ranganathan And sir you mentioned that you would grow at 10%-12% and if we just see the potential of MDF as we see where the face veneer prices are, obviously that has a potential to grow far better and considering that we still have not restarted optimum capacity utilization in the MDF side and the plywood does continue to grow at this rate and if particularly the mid segment grows, would not be able to we grow at a higher than 10%-12% rate?

V. Venkatramani See, I do not think it is very realistic figure at least for the next financial year. So I think the markets will continue to be challenging at least for the first 2 quarters of the next financial year. So possibly 10%-12% is what we would look to achieve although our internal targets would be higher.

Abhishek Ranganathan This I would presume that a bulk of this 10%-12% will come from volumes, is it, because we are continuing to see the market sluggish.

V. Venkatramani Yes, I would say like possibly we would be looking at 6%-7% growth in volumes and 10%-12% overall growth.

Abhishek Ranganathan Right sir and in terms of particularly on the MDF side, earlier caller had asked a question as to whether you will fall short of capacity as such, I mean to what extent can we improve our utilization rate?

V. Venkatramani It is very difficult to forecast because we have not gone beyond 100% on a sustained basis in any quarter. So I would possibly be able to give you a better picture, once we achieve a level of say possibly 110 or 115 as to what would be sustainable capacity utilization. So I would say I would look at possibly the next 2 quarters before commenting on sustainable capacity utilization rate which we will be able to achieve capacity utilizations beyond 115%.

Abhishek Ranganathan Sir last two things is that you mentioned that focusing on improving the distribution reach and higher margin product if you could just let us know what are the measures which we have made here?

V. Venkatramani Primary, the investments we have made in branding during the current year so the branding activities we do are primarily for the premium segment. So we want to hold our market share and also improve it when the demand starts improving.

Abhishek Ranganathan And you mentioned about the supply chain and IT infrastructure.

V. Venkatramani Yes.

Abhishek Ranganathan So here in a sense that what benefits can we get out of the IT, out of the supply chain how much leaner can we make it?

Shobhan Mittal See what we have done is that after the demerger, we have gone onto a new platform which is called the SAP HANA system. Now with the SAP HANA system, what we have done is we have also gotten into what we call business objects which is the business intelligence aspect of the SAP HANA. So lot of our systems which are currently manual would then become automated and generated automatically in the business intelligence format by way of tablets and by way of your utilization on mobile devices which could be rolled out across our platform including the sales teams etc. So this would result in a much more efficient and much better sort of sales operations going forward.

Abhishek Ranganathan Market information and new catalogs and new product and all the ancillary things related to sales would be much faster because of this.

Shobhan Mittal Yes including that also with regards to generation of orders from the market providing information to the various customers in terms of their current sales and in terms of their current outstanding etc., all this would become automated and easily available. So this would make the system a lot more efficient in terms of sales activities.

Abhishek Ranganathan Your dealer management, your debtor management everything would be more process oriented and possibly we should see more and more let us say even better or more improvement in the debtors?

Shobhan Mittal Sorry, improvement in debtor.

Abhishek Ranganathan Debtor yes because if you think customer management and their inventory and their outstanding etc. everything because in an automated platform, the monitoring and collection of the debtors should also be easy**Shobhan Mittal** Monitoring definitely would become better, but it is very hard to say that would actually result in a better collection aspect.

Abhishek Ranganathan No**,** debtor days would come down is what I intent to say.

Shobhan Mittal I would not say so because end of the day, technology is not limiting us in terms of debtor days even today. It is really the crunch of money in the market and the unwillingness I would say of the customers to pay on time which is resulting in high debtor days.

Abhishek Ranganathan When you are saying customer, it would be largely your dealers you are referring to, right?

Shobhan Mittal Yes, dealers, distributors etc. because there is a crunch in the market for money for them also. Their collections are probably stuck in the market so that eventually it affects our payments as well.

Abhishek Ranganathan Lastly in MDF, the margins which we have made in this quarter I think we should be able to sustain this over a period of next 4-5 quarters?

Shobhan Mittal We should be able to, yes.

Abhishek Ranganathan And we are able to get it out, we should even get some more operating leverage if able to up the capacity over the full year.

Shobhan Mittal Yes, see when it comes to capacities in MDF, we have to keep in mind that product plays a very important role in this scenario. See like I said in my opening remarks that we try to go on to higher margin product like exterior grade MDF boards. So margins are far better but then capacity limitations come into the picture because density of the MDF board plays a very important role on the capacity of the plant as well. So if we are able to produce cheaper boards which are lighter density, the capacity goes up in some proportions but if we end up producing the high margin products which are higher density, then the capacity, so there is a give and take kind of a scenario between high premium products and capacities in MDF.

Abhishek Ranganathan In terms of volume, what we might lose out on volume will make up the pricing?

Shobhan Mittal Exactly and vice versa. If you lose out on pricing of higher grade products, then we make that up by volumes.

Abhishek Ranganathan Sure. Lastly that on your depreciation, interest rates, and debt how are you likely to be placed in the next couple of years?

V. Venkatramani Like I said, we would possibly be able to reduce debts by approximately Rs. 50 crore in the next financial year. So possibly we will get a 6-month benefit on Rs. 50 crore at the rate of about 10%. So it should result in a fall of about Rs. 2.5 crore in interest for the next financial year.

Abhishek Ranganathan Yes and then there is no material CAPEX is lined up, depreciation you will change significantly.

V. Venkatramani Yes, that is correct.

Moderator Thank you. We have the next followup question from the line of Priyank Singhal from Bajaj Allianz. Please go ahead.

Priyank Singhal I wanted to understand in terms of crude chemicals what in percentage terms is the overall exposure to these chemicals as a percentage of raw materials separately for plywood and for MDF?

V. Venkatramani It is about 10% of the total plywood cost.

Priyank Singhal 10% of sales you are saying.

V. Venkatramani Phenol and Melamine which are derivatives of crude have a very low composition overall because almost 80% of the plywood raw material cost is contributed by wood and it would also be a similar percentage in MDF because both these products are primarily wood products. So chemicals have a very low ratio.

Priyank Singhal And while Shobhan mentioned that margins in MDF are sustainable going forward at the current quarter levels, what is the kind of growth rate we are looking at for MDF for FY16? You mentioned 11%-12% kind of growth rate for the plywood segment.

Shobhan Mittal You should look at an overall growth of 10%.

Priyank Singhal For the company you are saying, is it?

Shobhan Mittal No, I mean for MDF as well.

Priyank Singhal So 12 odd percent in case of plywood and 10 odd percent in case of MDF?

V. Venkatramani Yes that is what say about 10%-12% at the product level as well as at the company level.

Priyank Singhal So MDF despite low base of the first 2 quarters and the phenomenal growth in this quarter, you think the growth rate going forward moderate, is it despite an improvement expectation on the economy front.

V. Venkatramani We are not saying like if you look at it, overall I think we would be achieving a capacity utilization of somewhere around 85% for the current financial year and considering that there is still some challenge in the economy and marketing, I would say we would possibly have a capacity utilization of 90% in the next financial year. So some volume growth and some value growth together we should be looking at an overall growth of about 10%-12% in both the product segments.

Priyank Singhal Sure. Also in terms of distribution infrastructure, is the supply chain similar for MDF and plywood or is it very different?

Shobhan Mittal It is not, I would not say there is a very huge overlap because we kept, from the very beginning, the MDF market was working independent of the plywood segment. So there are certain focused channels which are focusing primarily on MDF and particle board and there are certain ones which are focusing on plywood. There is definitely an overlap. There are some elements of commonality in the supply chain but largely it is independent of each other.

Priyank Singhal Sure and in terms of our A&P spends, is large part of that focused on plywood and not as much on MDF or that is a wrong impression and it is equally split between the two?

Shobhan Mittal No, it is largely focused on plywood.

Priyank Singhal And the reason is MDF is more B2B, is it?

Shobhan Mittal It is more B2B, also at this point of time the market sees MDF as a commodity product. So branding does not play such a large role as like you know we will not be able to get a very high premium even though it might be a branded product. So hence the focus because MDF market is primarily driven by the pricing of the MDF and pricing plays a very important role. So people are not very open to pay premiums for branded segments etc. That is why unorganized imports are also big threat in the MDF industry, whereas as in the plywood segment imports are not such a big threat.

Priyank Singhal Sure. So the 130-140 bps higher A&P in the current quarter that entire impact went into the segmental margins of plywood and that is the reason why that margin, all the negative impact of that is seen in that segment, is that correct?

Shobhan Mittal Yes, majority of it was on account of plywood.

Moderator Participants that was the last question. I now hand over the floor back to the management of Greenply Industries. Thank you and over to you sir.

Shobhan Mittal We would like to thank everyone for joining us on this call and we appreciate the time that you spent with us and we look forward to sharing our next quarter and year end performance on the next call. Thank you very much.

V. Venkatramani Thank you very much.

Moderator Thank you sir. Ladies and gentlemen, with that we conclude this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.