



Greenply Industries Limited

Q3 & 9M FY18 Conference Call Transcript

February 7, 2018

- Moderator** Ladies and gentlemen good day and welcome to the Greenply Industries Q3 FY18 earnings conference call. As a reminder all participants' 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 the 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. Rabindra Basu from CDR India. Thank you and over to you Mr. Basu.
- Rabindra Basu** Good day everyone and thank you for joining us on the Greenply Industries Q3 & 9M FY18 earnings call. We have with us today Joint MD & CEO, Mr. Shobhan Mittal and Mr. V. Venkatramani, the CFO of the company.
- Before we begin, I would like to state that some of the statements made in today's discussion maybe forward-looking in nature and may involve certain 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 this call.
- Shobhan Mittal** Thank you Rabindra. A warm welcome to everyone present and thank you very much for joining us today to discuss Greenply's Operating and Financial Performance for Q3FY18. I will talk briefly about the performance of our businesses before passing on the call to Venkat to run you through the numbers for the quarter.
- Plywood business for the quarter grew by 6.1% owing to re-stocking by distributors, E-way bill systems which got implemented on 1st of February 2018 had to be deferred indefinitely due to technical glitches on the portal.
- Our MDF business increased by 19.6% during the quarter owing to a lower base effect, gross margins saw a marginal improvement due to higher realization in the domestic market. Currency gains of Rs. 8.15 crore on the long-term borrowing for the new MDF plant in Andhra Pradesh improved MDF margins and contributed 7% towards the EBITDA margins. We have taken a cautious approach given the demand scenario and have recalibrated some of our CAPEX timelines. Our Gabon factory in West Africa for veneer production has already commenced operations on 3 peeling lines and the balance 3 lines will commence operations by March 2018. Our 13.5 million square meters, new plywood manufacturing facility in Uttar Pradesh is expected to commence production around December 2018.

Our decorative plants in Gujarat will commence operations in July 2018. Our MDF plant in Andhra Pradesh is progressing on schedule and should get commissioned by July 2018.

I would now like to hand over the call to Mr. Venkat for the financial numbers.

V. Venkatramani

Good afternoon, friends. I thank everyone for joining us to discuss the Q3 & 9M FY18 financial numbers. Our top-line grew by 10.8% compared to the y-o-y quarter; this was largely on account of re-stocking by plywood dealers which contributed to 6.1% growth in plywood and lower base effect in MDF.

MDF revenues grew by 19.6% during the quarter. Plywood contributed 69.4% of the revenues while MDF contributed 28.8%. In Q3 our gross margins reduced by 130 basis points year-on-year to 46.5% due to lower realizations in plywood and lower sales of decorative veneer. Average realizations in plywood were lower by Rs. 3 per square meter from Rs. 222 to Rs. 219. In Q3 FY18 MDF realizations were up by 3% to Rs.26,139 from Rs.25,348 per cubic meter on y-o-y, primarily due to higher realizations in the domestic markets. Domestic realizations per cubic meter were Rs.27,251 compared to Rs.25,897 in the December 2016 quarter. Exports for the quarter were 4,458 cubic meters at an average realization of Rs.16,326 per cubic meter.

EBITDA margins for the quarter were up by 170 basis points at 16% due to foreign currency gains on borrowings for the new MDF plant. Capacity utilizations in the quarter were 103% for plywood and 98% for MDF compared to 95% in plywood and 93% in MDF on y-o-y basis. Profit after tax was up by 50.2% at Rs. 36.05 crore owing to an improved top-line and currency gains of Rs. 8.15 crore on the new MDF plant.

Our CAPEX for nine months FY18 stands at Rs.283 crore and we expect to spend around Rs. 90 crore in the fourth quarter of this financial year. The CAPEX spends during nine months FY18 was on the Andhra Pradesh MDF plant, UP plywood plant and Gujarat decorative veneer's unit. Our working capital days have increased by 7 days to 68 days owing to reduction in creditors. We have speeded up payment to creditors as we are coming to the end of the CAPEX cycle. Our debt equity ratio stands at 0.69 as on 31st December 2017 owing to incremental debt of Rs. 370 crore for expansion projects. That concludes my presentation. I would now request you to open the floor for the Q&A session. Thank you.

Moderator

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Nehal Shah from ICICI Securities. Please go ahead.

Nehal Shah

My key question here would be the plywood performance. I think the performance has been particularly bad if we were to compare the margins and growth is quite understandable considering the E-Way billing which has got deferred. But margins have been significantly lower than what we would have expected otherwise, so can we throw some light on the same?

V. Venkatramani

The primary reasons were the sale of some lower margin products and also fall in the sale of decorative veneers which has higher margin. We expect that sale of decorative veneers will probably take some time to stabilize probably another quarter or two but yes, plywood margins should improve during the current quarter, it was a one-off situation in Q3FY18.

Nehal Shah

Where do you think the margin would stabilize to, post the current quarter?

- V. Venkatramani** I think we should see stabilizing between 10.5% - 11%.
- Nehal Shah** Any thought process behind how would we be able to scale up in the decorative veneer segment?
- V. Venkatramani** It's difficult like I mentioned it would probably take a quarter or two before we are able to stabilize the sales of decorative veneers because of the current demand situation. The demand for decorative veneers which is a premium product has reduced substantially during the current year and quarter and we expect this situation to continue for maybe another two or three quarters. But yes, the regular plywood sales should stabilize during the current quarter and we should see upswing in the margins compared to the current quarter.
- Nehal Shah** Secondly on the MDF side, the MDF performance obviously was significantly better. We were always scared because of new capacities coming in and largely in the northern part of India. Despite the capacities which have come in we actually have seen improved realizations compared to the last quarter as well despite the Century plant which has already come in. So is the trend likely to continue or are we likely to see the expected competition which was expected to come in this quarter already by now?
- Shobhan Mittal** Nehal actually I wouldn't say that we've really seen the effect of the increased capacity yet because Century started production only in the beginning of the third quarter and also due to the initial teething difficulties the materials that they have supplied in the market have primarily been an A2 or a B grade category material, also the volume of sales from them has been fairly subdued. I think they have achieved about Rs.45 Cr of sales in Q3FY18. So going forward it's safe to say that we will definitely feel the pressure on the margins with regards to the initial capacity coming in even with the new line of Action coming into production fairly soon. However, like we maintained in the past that because we will be shifting the supplies for the South, West and East zones to the new location in Andhra Pradesh which would allow us to allocate additional capacity for the North to the Rudrapur plant, it would give us some room to reduce prices yet maintaining our margins. But I would like to say that long run when these capacities are online there would be some reduction in margins from the Rudrapur plant for sure.
- Nehal Shah** Any timelines on when the AP plant is likely to commence production?
- Shobhan Mittal** I would like to maintain that maybe Q2FY19 we should be seeing a fairly significant production coming on line.
- Moderator** The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade** What I wanted to understand how has been the scenario with respect to the industry level growth in case of plywood and the reason for the decline? You said we have sold lower grade material, if you could give some sense about what was the percentage of the low-grade material overall as compared to the previous year?
- V. Venkatramani** No, primarily what I meant by lower grades was that the sale of decorative veneers has reduced substantially. I would say that's come down by almost 15% and that was the primary reason for the decline in realizations and margins because decorative veneers is a premium product where per square meter realizations are around Rs. 600 per square meter compared to about Rs. 265-270 for the normal plywood. So, reduction in the decorative veneers has substantially impacted the realizations and the margin.

Achal Lohade	And this will take couple of quarters you said to get on track.
V. Venkatramani	I think maybe two or three quarters because we have to see some sort of demand revival coming up before we see an improvement in demand for the premium product.
Achal Lohade	In terms of the unorganized players especially in the ply segment, how do you see that theoretically arguing if the E-way bill gets postponed further, will we see the continuous pressure on the volumes?
V. Venkatramani	I think so, definitely. With the implementation of the E-way bill we were hoping that there would be improvement in the situation from 1 st Feb. But what we understood was that the website could not cope up with pressures of the E-way bill generations and so it has been indefinitely deferred as of now. I think it's fair to say that there would be pressure on the volumes as long as the E-way bill system is not implemented in full.
Achal Lohade	In terms of MDF business, the guidance on the volume as well as the margins, would that remain or is there any change in the guidance as compared to what we have discussed last time?
V. Venkatramani	No, there is no change.
Achal Lohade	In terms of the cost structure if you could give some sense about how much is the variable cost at Rudrapur plant, how much is the fixed cost and South versus non-South margins?
V. Venkatramani	You mean to say for the MDF?
Achal Lohade	For the MDF business.
V. Venkatramani	The fixed cost would be around 18% to 20% for MDF, most of the costs are variable in nature. As far as the South plant is concerned, yes initially we expect to start with the low capacity utilization of around 45% for FY19. So definitely the fixed cost will not be absorbed in full and we expect to start with margin of around 14% for FY19.
Achal Lohade	And how would that behave in FY20, what kind of utilization in margin one could look at?
V. Venkatramani	We are projecting a capacity utilization of 60% and margins of around 17% in FY 20.
Achal Lohade	For the South plant?
V. Venkatramani	For the South plant.
Achal Lohade	Our another competitor who has just setup has already ramped up utilization to 65%-70% within three months. I'm just curious to understand is there any difference in the technology part?
V. Venkatramani	No, primarily the capacity in the South was double of what the competitor in question has.
Achal Lohade	So basically it's about the scale which is probably having an impact?

- V. Venkatramani** Sure.
- Achal Lohade** But in case of margin also if I look at the reported numbers, they have reported about 25%. Again, it is about the scale which is impacting our margins in the first half?
- V. Venkatramani** Two reasons, one is the scale, the other will be a substantial mix of exports at the new plant. At the existing plants export is around 10% of the total volumes whereas at the new plant exports are expected to be somewhere between 30% - 40% of the volumes. In exports the realizations are substantially lower, almost about 40% lower that will have a substantial impact on the margins.
- Achal Lohade** The export realization you said is about Rs.15,000-16,000, would that be the import price also of MDF in India?
- V. Venkatramani** Not really. So, look at it, prices in India should be around Rs.18,000 plus then there would be the customs duties and freight cost, so basic price for the imported material should be around 18,000.
- Shobhan Mittal** Well it also depends on the mix. It's safe to say that prices per cubic meter range between \$210 per cubic meter going up to \$270-\$280 per cubic meter depending on the thickness. These are the CNF prices and then of course there is the duty and the GST element on that.
- Moderator** The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal** I have question on the demand outlook both plywood and MDF sector. Secondly the E-way bill if it happens, how many months it will take to impact volumes?
- V. Venkatramani** Once the E-way bill system is implemented I think it will probably take about two quarters before the system stabilizes fully and then we should see the shift starting to happen from unorganized to branded.
- Manish Ostwal** Your comments on the demand trend in the plywood and MDF market and the institutional and the retail business how the trend is behaving.
- V. Venkatramani** We don't have much institutional business, institutional business would be about 10% in plywood and hardly anything in MDF. But as far as the demand situation is concerned I think we are still feeling the pressures of getting sufficient orders to have the plants operating at optimum capacity. I won't say there is substantial difference between the two segments, so demand is at a premium both for plywood and MDF. But I think as far as the E-Way billing system is concerned it's expected to have substantial benefits for the plywood segment.
- Manish Ostwal** So from the analyst meet of this quarter no material change in demand outlook, right?
- V. Venkatramani** That's correct.
- Moderator** We will move on to the next question that is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.
- Nitin Bhasin** Just a discussion on the plywood, my question is that the demand outlook isn't that great but if you look at the sales volume for this quarter if you adjust for the decorative veneers as you were mentioning clearly your sales volume would have

grown to about 15% to 18% if it was only ply is that right think, 17%-18% growth in the ply volumes?

V. Venkatramani

Yes that's correct.

Nitin Bhasin

What's the reason of such a big demand on a y-o-y basis it would explain? One could be that there was the demonetization in the last year quarter but 18% is a very big number, at least 3 to 4x the industry.

V. Venkatramani

I think it was primarily the reason that dealers have improved their stocking levels compared to what it was on 30th September 2017, so that's the primary reason for the improvement in plywood volumes.

Nitin Bhasin

So basically the dealers, the channels is actually restocking itself?

V. Venkatramani

Yes.

Nitin Bhasin

This quarter how much of your sales volume was the decorative veneers of the 12.44 million square meters?

V. Venkatramani

About 3, 25,000 square meters.

Nitin Bhasin

Your realization has actually been flat on y-o-y basis and also roughly on a q-o-q basis it would be similar. So is there a change in the composition of the ply's volumes that you are selling like between Echo-Tech range which is the sub-premium category and premium category, how are the demands in those two categories if you could explain us?

Shobhan Mittal

Demand was substantially the same as far as the categories were concerned because if we look at it we did about 4 million square meters of sales in Q2FY18 and we did about 4.33 million square meters of Echo-Tech sales in the current quarter, so that has gone up by about 8%.

Nitin Bhasin

So basically you are saying that the demand is equally uniformly high on both the segments which is eco-tech and non-Echo-Tech.

V. Venkatramani

Yes if we exclude the decorative veneers.

Nitin Bhasin

I see that in the beginning you were also highlighting that the ad expenditure and the promotions for the quarter were as low as 1.6, is just a timing difference or because the first half was higher number?

V. Venkatramani

Yes it was just a timing difference because we had substantially higher expenditure in the first half.

Nitin Bhasin

And the reason for employee cost going up to about 11.6% or nine months versus 10.6%, is it because of some big staff built-up, massive increases taken up in salary?

V. Venkatramani

We have recruited employees for both the manufacturing unit in AP and we are also scaling up the employee strength for the MDF sales team. This has increased the employee cost because at present there is no revenue from the Andhra MDF unit.

Nitin Bhasin	Because the competition yesterday in their Earnings Call was talking about that in the plywood segment though the raw material cost has gone lower which is the face veneer the operating cost are going higher. If you could also help us understand what are you noticing in your input material cost behavior?
V. Venkatramani	I don't think we have seen any such behavior. To look at it our raw material costs in plywood have not changed. There has been a marginal change I would say it is gone up by about 70 basis points, in the raw material cost otherwise there has not been much change as far as the operating costs in plywood are concerned.
Nitin Bhasin	Because your gross margins going down if there is a function of only the change in the mix of decorative veneer.
V. Venkatramani	Yes that's correct.
Nitin Bhasin	Why has the EBITDA margin gone up for currency gains in borrowings if you could explain this accounting because EBITDA margin going up by about 170 bps for currency gains in borrowings?
V. Venkatramani	Earlier up to March '16 we were capitalizing the interest on borrowings for expansion project. But with effect from 1 st April, 2016 for all new borrowings any currency losses have to be taken to the P&L account. So if you observed during the first two quarters of the current year we had currency losses on borrowings for the new MDF plant which we had taken to the P&L account and during this quarter there was the reversal of the currency losses sustained in the first two quarters. So there has been a currency gain which has again been taken to the P&L account.
Nitin Bhasin	But it's actually saving on the interest cost, am I right largely interest and depreciation?
V. Venkatramani	Yes, to the extent that difference is due to the interest rate between domestic and international rates. You can take that to interest, but the balance has to be taken to currency gains or losses.
Nitin Bhasin	What is your outsourcing proportion in ply today?
V. Venkatramani	Outsourcing proportion in volume terms is 30%, in value terms it's about 22%.
Nitin Bhasin	Of the entire nine-month till now?
V. Venkatramani	That's correct.
Moderator	The next question is from the line of Ashish Poddar from Anand Rathi. Please go ahead.
Ashish Poddar	My question is out of Rs. 400 crore of total revenues how much is export figure and if you can also give the YOY figure? What is the CAPEX guidance for next year?
V. Venkatramani	CAPEX guidance for next year is we will be spending approximately Rs.150 crore on the three projects where we are having the expansions currently. Export sales during the quarter over 4,458 cubic meters and sales value was Rs.7.28 crore.
Moderator	The next question is from the line of Deepen Seth from HDFC Securities. Please go ahead.

Deepen Seth I had two queries, one was with respect to the currency gains which has been partly answered but I will still complete that if you will allow me to and that is exactly how much is the quantum of the currency gains which have flowed into the P&L. Have I missed this information in your presentation somewhere?

V. Venkatramani Its Rs.8.15 crore.

Deepen Seth And it's fair to assume that this is subsumed in the item 2H which is other expenses which is Rs.74.8636 crore?

V. Venkatramani That's correct.

Deepen Seth It's subsumed there?

V. Venkatramani Yes.

Deepen Seth For the nine months, so if this is the reversal of what happened in the first two quarters then for the nine months has it kind of evened out or what was it for the first two quarters and what's the cumulative number which is there for subsumed in the Rs.265 crore figure for the nine months in other expenses?

Shobhan Mittal Currency losses in the first two quarters cumulative were Rs.14.5 crore.

Deepen Seth So we have reversed about Rs.8.5-9 crore?

Shobhan Mittal So we still have cumulative loss of about Rs. 6 crore.

Deepen Seth That's not substantial I was afraid it might be some Rs. 20-30 crore figure or something, so it's obviously not that much of it. So, I can safely therefore assume that of your PBT of Rs.50.65 crore at least Rs.8 crore is nonrecurring in nature?

V. Venkatramani That's correct.

Deepen Seth And correspondingly the number should be taken out if I really want to see operating EBITDA from your EBITDA number as well?

V. Venkatramani Sure.

Deepen Seth Okay, obviously the impact would be favorable in terms of analyzing the EBITDA for the trailing two quarters before this quarter?

V. Venkatramani That is right.

Deepen Seth The second one is on the MDF business where I am really puzzled and may be you can explain what is happening on the segment numbers on the MDF business, so what has happened is that the MDF business has posted a Rs.37.31 crore EBIT number on a revenue of Rs.115 crore, now note that the revenue has fallen sequentially and the profits have dramatically shot up, so the first thing I would have checked would be to see what the realizations have been like and I am unfortunately I do not have your last quarter realization in front of me, but even if I look at it year on year, your average realization has gone from 25,000 to 26,000, right, volumes have gone up by 16%, revenues have therefore gone up by 19%, but EBIT has more than doubled and even sequentially, so I wish I had the sequential numbers in front of me, I do not have them, but can you explain what is happening in this business?

V. Venkatramani	Like I mentioned, we had Rs.8.15 crore currency gains on long term borrowings for the new plant, so that is entirely on the MDF front...
Deepen Seth	It is absorbed in the MDF segment profit is it?
V. Venkatramani	That boosted the MDF margins.
Moderator	Thank you. The next question is from the line of Jigar Shah from Negen Capital. Please go ahead.
Jigar Shah	Sir, I just need a clarification, you said your South plant will have a 17% margin for MDF and blended margin for MDF overall will be approximately 23% to 25%, is this correct?
V. Venkatramani	Yes, I said the south plant margins will be approximately 14% for FY '19 and 17% for FY '20 and as far the existing MDF plant at Rudrapur, currently the operating margins excluding the currency gains is about 27% and we are expecting that with increase in competition that could possibly stabilize around 23% or 24%.
Jigar Shah	You are going to be exporting from the South plant and till the time the domestic market improves and the demand domestically goes up?
V. Venkatramani	That is correct.
Jigar Shah	So, you see the margins actually getting better in FY '20?
V. Venkatramani	That is right.
Jigar Shah	In FY '21, basically as the year progresses, the margins could keep getting better, you shift your production to domestic basically?
V. Venkatramani	Yes, we are expecting that will probably have full capacity utilization of the new MDF plant in FY '22 and at that time, we should possibly have around blended EBITDA margin of around 24% to 25%.
Jigar Shah	According to you, the margin guidance that you have given is conservative you would say or the base case kind of situation?
V. Venkatramani	I will not say it is conservative, I would say it is realistic.
Moderator	Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
Achal Lohade	Sir, if you could give some color in terms of the outlook for Ply business for next couple of years in terms of volume growth, how you look at it?
V. Venkatramani	I will give it to you in two situations. One assuming that the E-way bill system is implemented and two it is not implemented during the whole of FY '19. In case it gets implemented and stabilizes within the first quarter, so we would be expecting a top line growth of about 10% to 12% in plywood for the next financial year and assuming that it gets deferred on a frequent basis and it is not in force for a major part of the year, I think our top line guidance would be about 5% to 6%.
Achal Lohade	When you are saying these numbers, these are volume numbers right, Sir?

V. Venkatramani	Volume numbers
Achal Lohade	This is assuming the demand scenario what kind of demand scenario you are seeing?
V. Venkatramani	I am assuming that it will remain more or less the same during the next financial year, I am not expecting any substantial improvement in the demand scenario.
Achal Lohade	Secondly, consequently the margins would be 10.5% to 11% you are saying, is that a fair understanding?
V. Venkatramani	That is correct.
Achal Lohade	That is largely to do with the fact that the Deco Veneer proportion is lower at the moment, which will take two to three quarters to stabilize?
V. Venkatramani	That is correct.
Achal Lohade	Okay, because q-o-q the margins have also dropped and largely it is to do with the veneer mix, is that right understanding, Sir?
V. Venkatramani	That is right.
Achal Lohade	How are the timber prices moving Sir, have you seen them further moving up compared to the last quarter?
V. Venkatramani	Not really, they are more or less stable.
Achal Lohade	The 70 basis points increase in raw material cost is a q-o-q you talked about, is that right?
V. Venkatramani	What I said was that because of the lower realizations in plywood, raw material cost has gone up on a percentage to sales basis.
Achal Lohade	I was curious to understand just somebody had asked with respect to the other inputs for plywood business, the costs are going up, you said it is stable but you also said it is up 70 bps, that is more to do with the product?
V. Venkatramani	That is more to do with the sales mix of plywood rather than any absolute increase in costs.
Achal Lohade	The reduction in the A&P I see a 150 basis points reduction in the A&P cost this quarter, how do we read that is a conscious call?
V. Venkatramani	It is one-off situation, I think our A&P spends were substantially higher during the first two quarters and we also expect to have a reasonable spend in the Q4FY18, so it is more of a one quarter effect.
Achal Lohade	Just one clarification I wanted, Sir, you would set up a subsidiary to market the MDF products, if you could elaborate what is the rationale behind that?
V. Venkatramani	We are still in very initial stages and in discussions with our consultants. Like, we are entitled to a refund of SGST sales from the Andhra Pradesh plant, so if we sell directly to the dealers at various points across India most of the sales will be under GST where we will not be entitled to any refund, we will be entitled to a refund of

SGST only for the local sales in Andhra Pradesh, so we are working to increase the local sales in Andhra Pradesh by having a subsidiary in Andhra Pradesh which would take care of the marketing of MDF across the country.

- Achal Lohade** Is this particular for our unit or it is the provision for the state, Andhra Pradesh state?
- V. Venkatramani** It is for the Andhra Pradesh state.
- Moderator** Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.
- Nitin Bhasin** Sir, could you explain us the MDF sales, the reason for such a good growth in MDF volume, sales they are up about closer to 20% in terms of revenues and about 16% in volumes, what part of the market is it growing, is it like retail usage, institution usage?
- V. Venkatramani** I would say it is primarily due to the base effect. We had a substantial dip in MDF revenues in the year on year quarter which was impacted by demonetization, so basically it has picked up from the lows of that quarter, so I would not say there has been any significant improvement in demand, it is just that demonetization which had substantial impact in Q3 of last year, so we have recovered from that.
- Nitin Bhasin** The CAPEX that you are undertaking right now for which you are borrowing in foreign currency or possibly the cost is also going, any savings on the CAPEX cost that you are witnessing, anything that you can quantify the final cost of the project which appears likely right now for MDF plant?
- V. Venkatramani** I think we should finish with somewhere in the range of Rs.730 to 750 crore.
- Nitin Bhasin** When you envisage from there to today, how much has it come down?
- V. Venkatramani** It has not come down at all. In fact because of the movement in the Euro, it has gone up slightly, I was expecting to finish with around Rs.700 crore, now I have revised to Rs.730 crore.
- Nitin Bhasin** Overall, your working capital days at the end of December was 68, if you look at last year, it was 61, March was about 51, this has been inching up, so if you could explain that how is this working capital shaping up because primary reason for you is I think is marginal increase in inventory and decline in creditor days, so what is going on here, Sir?
- V. Venkatramani** Like I mentioned, we had delayed payment to the creditors during the past one year because we were requiring funds for the CAPEX program and now that major part of the CAPEX is completed, we are speeding up the payment to the creditors and bringing it back to normal.
- Nitin Bhasin** One should see that this would remain roughly closer to about 65 to 70 days as a normal working capital?
- V. Venkatramani** That is correct.
- Nitin Bhasin** What are you hearing on the unorganized players today in the country whether it is clusters in North India, South, or East India, Central India, what is the state of affairs. We hear that those guys are having a field day, they are trying to sell

everything and anything because there is no checks today, are some trying branding also, is somebody trying formalization also?

- V. Venkatramani** I would not be able to give you a reply on branding and formalization right now, I will have to check with the sales team, but yes, you are correct, with the GST still at 18% rate, most of the supplies from the unorganized segment are happening without invoices, so it has gone up substantially. It had gone up substantially when the GST rate started at 28% but even with the reduction in GST to 18%, there has been no improvement in the situation, so it is continuing as it was in the last couple of quarters.
- Nitin Bhasin** Sir, you mentioned that Gabon, your face veneer facility has started, is that right?
- V. Venkatramani** That is correct, we started in July.
- Nitin Bhasin** Sir, because of which now this is second quarter running, what sort of a saving have you witnessed on the face veneer cost for yourself?
- V. Venkatramani** Not much because at moment we are sourcing only about 10% of our requirement from Gabon, because Gabon is currently operating at a very low capacity, we have installed only three peeling lines out of a total of six, so possibly we will see a significant increase in consumption of Gabon face veneers during the next financial year which should see some savings in raw material cost, but then again face veneers are only about 10% of the total raw material in volume terms, so I do not expect it to be very substantial.
- Nitin Bhasin** Sir, on the MDF prices today, if you could help us understand what is the difference between you and the imported price landed in South India or available your product in Central India or North India, if you could explain two reasons, difference in pricing?
- V. Venkatramani** Our pricing is uniform across India and if you compare that to the imported prices in South India we would be at a premium of about 14% currently somewhere around 13% to 14% currently.
- Nitin Bhasin** In South India?
- V. Venkatramani** That is right.
- Nitin Bhasin** This is for the plain laminate or laminated?
- V. Venkatramani** The plain MDF.
- Nitin Bhasin** And laminated?
- Shobhan Mittal** There is not much imports of laminated MDF, it is mostly being imported in plain form.
- Nitin Bhasin** When you will do exports, will that be plain or that will be laminated?
- Shobhan Mittal** Mostly plain.
- Moderator** Thank you. We will take the next question from the line of Kritika Subramaniam from IIFL. Please go ahead.

- Kritika Subramaniam** Sir, I just wanted to ask even after adjusting for the Forex gains in the MDF segment, I guess the EBIT margins are marginally up on a q-o-q basis, this is despite higher staff cost in our Andhra Pradesh unit and for the marketing personnel for MDF as well as sequential different realization, so I just wanted to understand, could you explain the reason for this?
- V. Venkatramani** I did not get your point, you said sequential dip in...
- Kritika Subramaniam** No, sequentially the EBIT margin for the MDF segment are up on q-o-q basis even if I adjust for our Forex gain, so I just wanted to ask that despite higher staff cost which we would be allocating in the MDF segment as well as the fact that our realization has gone down q-o-q, is there something that I am missing?
- V. Venkatramani** If you look at the EBITDA margins, they were about 26% in Q2FY18 and there has been a marginal improvement in Q3FY18, so that is like I mentioned, it is because of the fact we have had a lower promotion spend in this quarter compared to the earlier quarter.
- Kritika Subramaniam** So has that largely been, do we take most of our promotional expenditure in unallocable or we split it segment wise accordingly?
- V. Venkatramani** We split it segment wise. There are no advertisement expenses in unallocable.
- Kritika Subramaniam** So do we allocate a lot of the ad expenses to MDF, it is largely B2B, so I was just wondering?
- V. Venkatramani** We do not allocate it on any proportionate basis, only the direct expenses are allocated, so MDF spends are separate and plywood spends are separate and each segment bears its own cost, so we do not have any universal sales promotion expenditure. While plywood expenses are more on the ATL side, MDF expenses are more on the BTL side.
- Kritika Subramaniam** Sir, one more thing initially when Century had commissioned a plant in October, I believe that there like to like pricing discount versus your product was in the range of 3% to 7%, Sir, does that hold true as of now also, is there any change in their pricing?
- V. Venkatramani** I heard between 3% to 3.5%, I have not heard of that 7%.
- Shobhan Mittal** It is between -3%-3.5% across the country.
- Kritika Subramaniam** Okay, and that continues as of Jan-Feb also, right?
- Shobhan Mittal** Yes, I mean comparing apples to apples, basically A grade versus A grade.
- Moderator** Thank you. The next question is from the line of Keyur Pandya from Prabhudas Lilladher Pvt. Ltd. Please go ahead.
- Keyur Pandya** The question are more on the book keeping side, one is what would be the average our cost of debt for next couple of years and will we have peaked in FY '19 or FY '20, that is one? The second is the lower working capital debt we saw in FY '16 and FY '17 which is around 45 to 46 days, so will we able to go back to those working capital days or this is a new normal?

V. Venkatramani	Yes, I would say this is probably the normal for the current, we do not expect any substantial improvement in working capital days during the next financial year. We could see a few days here or there, but no substantial improvements because demand continues to be at a premium for both the product segments and coming back to your question on interest cost, interest costs are about 8.2% to 8.3% for the existing business and as far as the borrowings for the new MDF plant are concerned, they are substantially lower probably blended would be around 2% to 2.5%, but then once the borrowings are completed, we will also be taking coverage for the borrowings which will increase borrowing cost probably then we should see somewhere between 7.3% to 7.5%.
Keyur Pandya	For the MDF or blended this number is?
V. Venkatramani	For the new MDF plant.
Keyur Pandya	We will have peaked at in FY '19 around 600 crore?
V. Venkatramani	The peak debt is expected to be around Rs.715 crore.
Moderator	Thank you. We will take the next question from the line of Achal Lohade from JM Financial. Please go ahead.
Achal Lohade	Just wanted this clarification Sir, you said last year you had delayed the payment to creditors, was there any interest paid to them and how do you see the interest cost, you have given some color but is it possible to look at kind of a Rs.40 to 50 crore number for FY '19 in terms of the interest cost?
V. Venkatramani	Interest cost will probably be around Rs.45 crore for FY '19.
Achal Lohade	And FY '20 would be little higher?
V. Venkatramani	Yes, should be around Rs.60 to 62 crore.
Achal Lohade	Was there any payment to the creditors with respect to the delayed payment for the anything?
V. Venkatramani	No there was not, it was clean credit.
Moderator	Thank you. The next question is from the line of Rajesh Dagra from Cogencis. Please go ahead.
Rajesh Dagra	I wanted your MDF sales volume for the Q3FY19 43,790 cubic meters, how much was it domestic and how much was it exports, and the year ago figures for that as well?
V. Venkatramani	Domestic were 39,332 cubic meters and exports were 4,458 cubic meters and year ago domestic was 35,761 and exports were 2002.
Moderator	Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
Shobhan Mittal	We wish to thank everyone for joining the call for our Q3FY18 numbers and we look forward to speaking to you again in the subsequent quarters. If anyone has any further queries, please feel free to email them to us or call us. Thank you very much.

V. Venkatramani Thank you.

Moderator Thank you. Ladies and Gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.