



## Greenply Industries Limited

### Q2 & H1 FY20 Earnings Conference Call Transcript

November 08, 2019

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**Moderator:** Good day, ladies and gentlemen and welcome to the Q2 and H1 FY '20 Earnings Conference Call of Greenply Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishab Brar from CDR India. Thank you, and over to you, sir.

**Rishab Brar:** Good day, everyone, and thank you for joining us on the Greenply Industries Q2 and H1 FY '20 Conference Call. We have with us today Mr. Rajesh Mittal – Chairman and Managing Director; Mr. Sanidhya Mittal – Joint Managing Director; and CFO – Mr. Mukesh Agarwal.

Before we begin, I would like to state that some statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the result presentation that was sent to you earlier.

I would now like to invite Mr. Sanidhya Mittal to begin the proceedings of the call. Thank you, and over to you, sir.

**Sanidhya Mittal:** Thank you, Rishab. A very warm welcome to everyone present and thank you for joining us today to discuss Greenply's operating and financial performance for quarter 2 and H1 FY '20.

Our performance in this quarter has been healthy. Volume and sales growth had been stable and accompanied by margin expansion. We are beginning to witness the fruit of an intensive three-pronged focus on brand building, strengthening of distribution and efficiency enhancement. E-Way Bill and GST implementation is also becoming strict wherein we are seeing unorganized players raise prices and reduce the price disparity. Our expansion in Gabon for face veneer business is also progressing well and we are excited about this opportunity.

Greenply India, which is our standalone entity, net sales for the quarter stood at Rs. 344.1 crore compared to Rs. 336.4 crore in quarter 2 FY '19, an increase of 2.3%. Overall gross margin had been up by 373 bps at 39.7%. Our average realizations in quarter 2 FY '20 in plywood increased from Rs. 222 in quarter 2 FY '19 to Rs. 224 per square meter in quarter 2 FY '20.



Standalone EBITDA margins has increased by 67 bps year-on-year to 11.4%. Consolidated EBITDA margins increased 158.5 bps year-on-years to 11.9%.

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

**Mukesh Agarwal:**

Good afternoon, everyone. I thank everybody for joining us to discuss the Q2 FY '20 financial performance of Greenply Industries Limited. In Q2 FY '20, our consolidated topline was up by 5.8% compared to the year-on-year quarter. Revenue growth was attributed mainly on account of higher revenue of Gabon subsidiary, which was Rs. 34.79 crore as compared to Rs. 21.74 crore in the previous corresponding quarter.

In Q2 FY '20, consolidated gross margins up by 422 bps year-on-year at 42.1%. Consolidated EBITDA stood at Rs. 45 crore and standalone EBITDA stood at Rs. 39.1 crore. Consolidated PAT was up by 50.7% at Rs. 26.42 crore compared to 17.54 crore in Q2 FY '19. Standalone PAT increased by 27% in Q2 FY '20 at Rs. 22.90 crore compared to Rs. 18.03 crore in Q2 FY '19.

Consolidated working capital cycle as on September '19 is at 75 days, which is higher by 18 days as compared to September '18. Standalone working capital cycle as on September '19 is at 68 days, which is higher by 17 days as compared to September 2018.

Consolidated debt-to-equity ratio is at 0.75 as on September '19 and 0.87 as on September '18. Standalone debt-to-equity ratio at 0.47 as on September '19 and 0.52 as on September '18. CAPEX incurred in H1 FY '20 in plywood business amounted to Rs. 7 crore and CAPEX incurred during H1 FY '20 in Gabon was Rs. 13.16 crore.

We are encouraging by our performance in the quarter under review and look forward to continued strong financial and operating performance. In fact, a visible indication of the confidence in our outlook is reflected in the promoters having increased their stake in the quarter.

That concludes my presentation. I would now request you to open the floor for the question-and-answer session. Thank you.

**Moderator:**

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

**Kaushal Shah:**

Sir, if you can just share 2 things. One is how the raw material synergy in Q2 is. And also the performance of our trading division and the other brands like Ecotec, Bharosa, and Jansathi etc.?

**Mukesh Agarwal:**

The raw material performance in Q2, timber prices in the initial of Q2 was a bit high but in chemical we had a gain . and we gained in the face veneer prices also because in Q2 face veneer prices were good because of import from Gabon . And to your next question, so in the trading business, in Q2, we had a volume growth of 4.5% and we had a realization gain of 5.5% from the trading division. And overall, if you see the trading division contributed in volume terms, 36% and in value terms, 28%.



**Moderator:** Thank you. The next question is from the line of Sachin Kasera from Swan Investment. Please go ahead.

**Sachin Kasera:** Sir, can you give us some outlook for the second half. How's it looking vis-à-vis the first half?

**Rajesh Mittal:** Yes, well, in H2, we believe the market will further improve and a lot of the corrective actions which we have taken in Greenply regarding our debtor cycle, lot of things are now being under control, so I believe in the second half there will be at least 8% to 10% growth.

**Sachin Kasera:** H2. So you mean H2 over H1 or H2 over H2 of last year?

**Rajesh Mittal:** It will be H2 over the last year.

**Sachin Kasera:** Secondly sir, you mentioned in your opening remarks that the debtor levels have gone up because of which net debt cash flow from operations has not been that good. So any specific reason for that? And what are the corrective actions we are taking to improve?

**Sanidhya Mittal:** That debtor level compared to H1 last year has gone up but if you compare against Q1, in Q2 we have marginally reduced the debtor levels, and this is mainly because of the cash flow and overall scenario in the market. And our projection for the growth was also much higher because of a lot of tightening in the debtor cycle and to control the overall working capital cycle, we have kind of compromise on the growth also in H1. So we are working on various parameters to control this. I'm sure in the coming quarters, it will become much better.

**Mukesh Agarwal:** Just to add in Q1 FY '20, our debtors days was 95 days. And in Q2 FY '20, we have 93 days. So if you compare Q-on-Q, there's an improvement of 2 days.

**Sachin Kasera:** But how do we see if there is further improving in the next 6 months? Should it come down to like 80-85 days by March, sir? What is the endeavor?

**Mukesh Agarwal:** Yes. Our target is to bring it back to the March level, which was 81 days.

**Sachin Kasera:** 81 days, okay.

**Mukesh Agarwal:** We're working aggressively on that. Probably we will be very close to that number, anything between 81 to 85 days.

**Sachin Kasera:** Sure, sir. Secondly sir, what is the outlook on the margins also? They should further improve from the current level, at the standalone level or they will remain where they are?

**Mukesh Agarwal:** So at present we have EBITDA margins of around 11.9% at consolidated level, and I think there can be some margin improvement at standalone level but not much.. From Gabon, we are expecting good margin. In Q2, we had EBITDA margin of 17%. So there can be chances that EBITDA margin in next H2 will be better in Gabon.

**Sachin Kasera:** Sir, my follow-up question regarding Gabon. If you could tell us how it has performed in this quarter and how is the overall outlook for this year and next year?



**Mukesh Agarwal:** Gabon, in quarter 2, we had a topline of Rs. 35 crore and with EBITDA margin of 17%. And at PBT level, our profit was Rs. 3.5 crore. And this year, we have a revenue target of Rs. 200 crore from Gabon business with blended EBITDA of 18% from Gabon.

**Sachin Kasera:** And how much we have done in the first half, sir, you said? Q1 was Rs. 30 crore; Q2 was Rs. 37 crore,?

**Rajesh Mittal:** First half was Rs. 78 crore topline and EBITDA margin was 17.5% in H1 FY '20.

**Sachin Kasera:** And for the full year guiding for Rs. 200 crore with 18% EBITDA margin?

**Rajesh Mittal:** Yes because we started our new expansion unit day before yesterday on 6th of November. So that will also add to the topline and to the bottomline.

**Sachin Kasera:** And what about the capital expenditure plan both in India as well as in Gabon for the second half?

**Mukesh Agarwal:** In India, we have a CAPEX plan of Rs. 14 crore. Out of which, we already had Rs. 7 crore in H1. And the balance will be in H2. And in Gabon, we have a total CAPEX of around Rs. 21 crore and we already had Rs. 13 crore in H1. Balance will be in Q3 and some will be normal maintenance CAPEX in Gabon in Q4 because we already started the plant on 6th of November. So the balance CAPEX will be in Q3 and some will be in Q4 out of Rs. 7.8 crore.

**Sachin Kasera:** And sir, if you see this item number, share of profit loss on joint venture last year was Rs. 5 crore plus, this half it is minus 1 crore. What exactly does this relate to, sir?

**Mukesh Agarwal:** So we have an operation in Myanmar and from there, we export face veneer to India and to other countries. And this is a joint venture. Our stake is only 50%. So in FY '19, there was a gain of around Rs. 5 crore. And in this quarter and H1 there was loss in Myanmar business, we hold only 50% in that JV, so it is coming from the Myanmar business.

**Sachin Kasera:** So sir, what is the reason for the Rs. 5 crore profit becoming 1 crore loss? Any reason and it is going to remain like this?

**Mukesh Agarwal:** Earlier, we had a margin and we had some Forex gain.

**Sachin Kasera:** So this loss will continue, sir, in the second half also, ?

**Mukesh Agarwal:** I think second half will be better as because in H1 the face prices were corrected, especially in Q2. So we are hopeful that face prices will increase and we will gain because those are made of Gurjan timber. So Myanmar government, they reduced the timber prices also in Q2. So that will help us in adjusting this loss in FY '20.

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

**Karan Bhatelia:** Sir, you mentioned that trading is 36% in volume and 28% on topline. So can I have a comparable number on a Y-o-Y basis?

**Mukesh Agarwal:** Y-o-Y, if you see 65% premium plywood and against 36% in volume was 35% in volume and against 28% Y-o-Y was 26% in the quarter.

**Karan Bhatelia:** Sir, any color on the 2 joint ventures that you were mentioning in the previous calls. So how are things shaping up there?

**Mukesh Agarwal:** The first joint venture will be operational by end of this quarter, Q3 and second joint venture will be operational by Q1 FY '21.

**Karan Bhatelia:** So one is for premium and the other is for lower end of plywood?

**Mukesh Agarwal:** Both will be for premium products. The first one is for the premium plywood and second one will be for film faced plywood and doors.

**Karan Bhatelia:** Right. And what sales and profitability are we expecting and what is the investment out there?

**Mukesh Agarwal:** Our investment is only 30% as of now in both the joint venture. And at the JV level, we are expecting Rs. 85 crore topline and if we get the entire material from JV at peak, then our turnover will increase by Rs. 110 to 115 crore each from both the JVs. And our EBITDA margin will be in the same ratio what we are earning today from the same line of product.

**Moderator:** Thank you. The next question is a follow up from the line of Sachin Kasera from Swan Investment. Please go ahead.

**Sachin Kasera:** Yes, sir, you mentioned that in H2 of this year, you are looking at 8% to 10% growth. The first half the growth is 3% to 4% only. So what is giving you optimism that the second half will be much better than the first half?

**Mukesh Agarwal:** We started decorative business last year, so quarter-on-quarter, we are improving our sales in the decorative veneer. So if you see H1 FY '20, we had Rs. 55 crore of value from the decorative business and our current year target was around Rs. 130 to 135 crore. So that will give the additional growth. Apart from that, PVC and lower-end plywood will also contribute to the topline in the H2 FY '20.

**Rajesh Mittal:** Quarter 4 is always better than the other 3 quarters. So this will definitely give the additional sales to us.

**Mukesh Agarwal:** Considering the year-end quarter.

**Sachin Kasera:** Secondly sir, from what I understand we've been trying to address the mid end, the lower end of the segment by outsourcing and joint venture. If you could give us more perspective from 3 to 5-year perspective, how do we see this part of the business shaping up?

**Sanidhya Mittal:** So mid and lower end, there's a complete outsource, where we just have an agreement with the party and the party supplies material to Greenply. It comes to different warehouses and they are stocked, and we sell it. And the joint venture in the premium segment. So premium segment as a strategy going forward in the plywood wood and the line products category, company wants to remain asset light and we do not want to invest into assets. So that is the reason we have invested in

a JV where our supply is guaranteed and even after giving a healthy margin to the JV, the company will still make sustainable EBITDA margins.

- Sachin Kasera:** Sir, that is reason that I understand. My question is more pertaining to the fact that over a 3 to 5-year perspective, what is the contribution we can expect from this outsourcing model to the overall revenue of the company?
- Mukesh Agarwal:** In FY '19, we had a turnover of Rs. 340 crore from the trading model and in current year, we are targeting around Rs. 387 crore and in next 3 years, we are targeting around Rs. 600 crore from the trading business, which is Ecotec and low-end plywood business, including PVC.
- Sachin Kasera:** Sir, today from what I understand, the margins are lower in these, but we also don't have too much of CAEPX, so the return on CAPEX is good. But as we scale up, do you think margins in this part of the business will also improve or they will remain where they are currently?
- Mukesh Agarwal:** Yes, it will improve slightly. At present, we are gaining 8-8.25% margin from this business. And if we reach Rs. 550 to Rs 600 crore topline, our margins can be anything between 8.5% to 9%.
- Sachin Kasera:** Okay. Sir, one last question regarding these opening remarks mentioned that promoters have looked to increase their stake. So are we done with that? Or the promoters are looking to further enhance their stake in the company?
- Mukesh Agarwal:** In Q2 FY '20, we increased our stake by 0.67% and we are always open to increase further in coming quarters.
- Moderator:** Thank you. The next question is from the line of Dharmendra Dave from Prabhu Das Lilladher. Please go ahead.
- Dharmendra Dave:** Sir, I want to know what the current utilization levels at Gabon plant is.
- Mukesh Agarwal:** Current utilization in Gabon plant is around 166% in Q2 and in H1 it is 178%.
- Dharmendra Dave:** Okay, and with this new capacity adding what will be likely exit capacity utilization for the current year?
- Mukesh Agarwal:** At present, we have a capacity of 36,000 CBM per annum and after expansion, our capacity will be 96,000 CBM per annum. And this is the input capacity. So we can peel up to 96,000 CBM per annum.
- Dharmendra Dave:** Yes, so by the year end, can we expect 100% utilization level at 96,000 CBM?
- Mukesh Agarwal:** Increased capacity will not be 100% but definitely, the existing capacity will be in that range, 175% to 180% on a blended basis. But increased capacity will take into effect from Q4 and next year will be the full year for the increased capacity.
- Dharmendra Dave:** And sir, how would you rate competition from the lower end of plywood vis-à-vis MDF?
- Rajesh Mittal:** Yes, definitely there will be competition between the MDF and the lower-end plywood because lower-end plywood means cheap quality of plywood. Cheap



quality plywood means like 18 mm plywood will be 16 mm plywood the bonding will not be great. so lower end and cheap end are entirely different, MDF market will take over the cheap grade of plywood and lower-end plywood which we have introduced in the market is to expand the margin of the dealers who are selling our brand, Bharosa or Jansathi.

**Dharmendra Dave:** Okay. Sir, you don't see a risk on losing any share on.

**Rajesh Mittal:** Yes, it will definitely take over the cheap plywood. We are not compromising anything on quality side in our lower-end plywood.

**Dharmendra Dave:** And sir, lastly, what is the marketing spend for the first half and for the likelihood for the full year?

**Mukesh Agarwal:** Marketing spend for the first half is around 3.5% and full year our target is close to 4%.

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

**Arun Baid:** Mukeshji, if you look at, our EBITDA margin for the first half reported is 11.2% as against 9.5% last year, so that's about 170 bps increase Y-o-Y. And if you look at the A&P spend, in the last year first half, our A&P spend was 5.4% and first half of this year, it's 3.9%. So 150 bps lower A&P. So the entire EBITDA margin increase is coming because of that lower A&P, if I look Y-o-Y.

**Mukesh Agarwal:** One of the reasons is lower A&P, but other reasons are because of operational efficiencies, face veneer prices and others like chemical costs.

**Arun Baid:** But that's not visible, Mukeshji, because your gross margins is up from 36.5% to 40.1% that is 350 bps increase. But it's not flowing down to EBITDA. Am I missing something?

**Mukesh Agarwal:** Our staff cost, which was 11.8%.

**Arun Baid:** 70 bps, yes.

**Mukesh Agarwal:** So 70 bps was increase in staff cost and if you see the logistic cost also increased from 4.9% to 5.1%.

**Arun Baid:** Not too much. Both if you add, it is like 90 bps only, if you add both?

**Mukesh Agarwal:** We have factory overheads also.

**Arun Baid:** I want to indicate Mukeshji, is that the flow over, see gross margins up 350 bps. Your A&P is down 150 bps, so if I add both, it is like roughly 5% increase. And that 5% slowdown is just 170 bps. So the 320-330 bps has gone somewhere, which I'm not able to calculate.

**Mukesh Agarwal:** That I will provide to you.

**Arun Baid:** And second thing is just one thing Rajeshji, if I look at our first half, our growth is 4% and I remember until some time ago, our guidance was 8% to 10% growth for the full year. And now we are seeing 8% to 10% in the second half. So invariably, are we saying that the total growth would be lower than what we were thinking earlier?

**Rajesh Mittal:** Well, actually, we are looking for a minimum 8% growth this whole year. What guidance we put 8% to 10% is coming to around for the whole year is 6-6.5% correct, But our target is to make it at least 7.5% to 8%.

**Arun Baid:** And second thing is, if I look quarter-on-quarter in Gabon, revenues have come down significantly from 45 odd to 35 odd. Any reason for this significant drop, Rajeshji ?

**Rajesh Mittal:** There are 2 reasons. Number one, the market condition specifically in India, the market was very bad on the face veneer market. That is the one reason. Secondly, we have taken some corrective action in the month of July and took control of cost. There was some production; We have almost 40% to 50% efficiency in the month of July. So we have done some corrective measures like that, , and our production has been reduced. So these are the basic reasons for our low turnover in the quarter 2. In fact, if you see quarter 3 also will not be that great quarter, but quarter 4 onward, we think it should be good.

**Arun Baid:** Okay. And with regards to the timber price increase, which you saw in July/August, has that started to taper down or it's still hanging on at a little higher end?

**Rajesh Mittal:** Yes, the prices started coming down for core veneer, and timber price in the Indian market. And if you see our quarter 2 also, there's some increase in the prices of the timber, but the chemical prices was at the lower end of it. So there was not much increase in the overall raw material costs whereas we had gained in quarter 2 because of face veneer, which we have used in last year quarter 2 vis-à-vis this year, the okume face veneer which we bought from our Gabon plant. So that has reduced our raw material cost as well.

**Arun Baid:** Yes. Sir, but the local timber prices, have they started to come down or they are still?

**Rajesh Mittal:** They started coming down. Raw material costs, raw material prices started coming down now.

**Arun Baid:** And face veneer prices in India, how are they trending now?

**Rajesh Mittal:** It has come down to the level of \$650 per CBM, from \$725-730 per CBM, but I believe in next couple of months, it will definitely going to increase further. The inventory level at traders level had gone down in India now.

**Arun Baid:** And chemical-wise, are the prices still there??

**Rajesh Mittal:** They are on the same line.

**Arun Baid:** As Q2, right?

**Rajesh Mittal:** Yes.



**Arun Baid:** So incrementally means if face veneer prices start doing well, it's good for us from a consolidated level perspective because then the margins will be better, am I correct sir?

**Rajesh Mittal:** Yes, absolutely. We are consuming 17%-18% of our Gabon production in India for our own consumption.

**Arun Baid:** And sir, incrementally, we were talking of a dividend policy to be thought about over a period of time. Have we done some work on that, sir?

**Mukesh Agarwal:** In Q1, we declared our results where we increased our dividend.. After demerger it should be 30%, but we increased that from 30% to 40%. And going forward after the close of the current financial year, we will review that, and we will update the investors for dividend policy..

**Rajesh Mittal:** To just add on, we have to firm up this policy. We have not firmed up.

**Moderator:** Thank you. The next question is a follow up from the line of Sachin Kasera from Swan Investment. Please go ahead.

**Sachin Kasera:** Sir, Gabon, you mentioned that we planned to do Rs. 200 crore of revenue this year. And you also mentioned that Q3 will also be a little soft. So what is the confidence level that you will be able to achieve this 200 crore, that is first question. And second is that what is the peak revenue potential from the Gabon project in FY20 or in FY22?

**Mukesh Agarwal:** In the current H1, we have achieved around Rs 79 crore from Gabon. And we have started our new facility in November. So that will also contribute to next 4 to 5 months, so we are confident in that way that we will be able to achieve the Rs 200 crores figure, what we are projecting.

**Sachin Kasera:** Okay. Sir, what is the peak revenue from Gabon in FY'21 or '22?

**Mukesh Agarwal:** After the expansion with the current capacity, we can reach up to Rs. 340 to 350 crore in FY '23.

**Sachin Kasera:** FY '23. So this year, the ramp up is quite fast for almost Rs. 200 crore. Then Rs. 200 to 350 will take almost 2, 3 years to reach, right, sir?

**Mukesh Agarwal:** In FY '21, our target is Rs. 290 to 300 crore. And then we have a target from Rs. 290 to 320 crore in FY '22. Further we have an expansion plan in Gabon that we have not finalized. . So, that will add to the revenue in the next 2 to 3 years.

**Rajesh Mittal:** Just to add in quarter 2, what we faced in Indian market regarding our face veneer market, we have really learned a lot of things. So we are now not depending entirely on Indian market, so we have opened the Southeast Asian markets also. So we are going the world over now, the Southeast Asian market, and European market, even in the African market as well. So it will definitely help us to increase our revenue this year also and in coming 2 to 3 years as well.

**Mukesh Agarwal:** And from the new capacity, we will supply to European market and the U.S. market. So that will start probably from Q4 FY '20.

**Sachin Kasera:** Sir, what is that total CAPEX you would have to achieve this Rs. 350 crore of revenue. What is the total CAPEX required?

**Mukesh Agarwal:** The total CAPEX in Gabon would be around US \$15 million. In INR, it could be anything between Rs. 100 - 110 crore.

**Mukesh Agarwal:** This Rs. 110 crores I am saying existing CAPEX and the expansion CAPEX including the land cost. Out of this, Rs. 50 crore is the land cost. And balance Rs. 60 crore is for shed & plant and machinery.

**Sachin Kasera:** And what is the working capital cycle for the Gabon unit, sir?

**Mukesh Agarwal:** In Gabon unit, we have a little higher working capital cycle. So if you see on a consolidated level, particularly at Gabon, we have a working capital cycle of 133 days in H1 FY '20. And debtor days is 66 days and inventory days is 55 days.

**Sachin Kasera:** So will it remain in this 125 to 130 band even as we scale up?

**Mukesh Agarwal:** If we start supplying to European markets, our working capital cycle will improve because the distance from Africa to India and Middle East, and if we start supplying to European market, that will help us in reducing our working capital cycle.

**Sachin Kasera:** Okay. And sir, on the Indian operations, when are you planning to become totally debt-free, including all the working capital borrowings?

**Mukesh Agarwal:** At present, if you see we have around Rs. 38 crore of long-term loans and balance of around Rs. 130 crore of short-term loans. So Rs. 38 crore will be paid off in next 3 years. And working capital will remain in the business because as we grow we require cash credit and other form of borrowings, bill discounting and other borrowings. So long term we will be paid off in next 3-3.5 years.

**Moderator:** The next question is from the line of Aasim Bharde from IDFC Securities. Please go ahead.

**Aasim Bharde:** So I missed the revenue expectations that you mentioned earlier for your JV business and outsourced business. Could you please repeat those figures?

**Mukesh Agarwal:** From the first JV, at JV level, we will have around Rs. 85 crore of turnover. And that will contribute Rs. 110 to 115 crore at Greenply level if we get the entire volume from the JV. And from the second JV, we will have the same value from door and film faced plywood. And at Greenply level, we will have around Rs.110 crore at peak. So if you add turnover from both the JV, it could be anything between Rs. 220 to 230 crore at peak.

**Aasim Bharde:** I'm sorry, I don't understand. Rs. 85 crore turnover will contribute to Rs. 110 crore?

**Mukesh Agarwal:** JV will supply to Greenply. So JV revenue will be Rs. 85 crore. and because we have spend on marketing, brand, then logistic cost, so that will be our cost. So at our level, we can earn around Rs. 110 to 115 crore of top level from each of the JV.

**Sanidhya Mittal:** This Rs. 115 crore at peak.

**Aasim Bharde:** At peak?



**Sanidhya Mittal:** Yes.

**Aasim Bharde:** And when do you expect this peak level to reach?

**Mukesh Agarwal:** Two years down the line, maybe from FY '22, .

**Aasim Bharde:** And sir, on the outsourced piece, the trading model, what are your expectations?

**Mukesh Agarwal:** At present, we are outsourcing semi-finished plywood, which is mat plywood. So we are gradually increasing our outsourcing volume from the mat plywood. So currently, if you see, we have around 39% to 40% from that business of the total premium plywood.

**Aasim Bharde:** In terms of revenue, how much would that be?

**Mukesh Agarwal:** Same revenue because whatever mat ply we outsource, we process that at our own manufacturing facility and we do calibration, overlaying and then we do the finishing. So it will go to the same channel and to the same dealers. So that has the same realization and EBITDA margins.

**Aasim Bharde:** How much is the premium plywood as a percentage of your total volumes?

**Mukesh Agarwal:** In Q2, premium in volume terms is 64% and in value term it is 72%. And this includes decorative veneer business also.

**Moderator:** Thank you. The next question is from the line of Suhani Adilabadkar, an Independent Research Analyst. Please go ahead.

**Suhani Adilabadkar:** Yes. Sir, I have 2 questions, sir, first is that you have mentioned that there is CAPEX plan of Rs. 110 crore on Gabon. So this Rs. 110 crore, is it going to be incurred, sir if you can please clarify?

**Sanidhya Mittal:** The total CAPEX which has been incurred since inception is Rs. 110 crore. There's no further plan of Rs. 110 crore.

**Mukesh Agarwal:** So this includes the existing facility of 36,000 CBM and the expanded facility of 60,000 cbm. So total capacity we have is 96,000 CBM. This 96,000 CBM including land investment, which is close to Rs. 50 crore, the total CAPEX is Rs. 110 crore. Balance Rs 60 crore, we spent on shed, plant and machinery and other equipments.

**Suhani Adilabadkar:** Okay, sir. So this is the since inception, the whole of CAPEX?

**Mukesh Agarwal:** Yes.

**Suhani Adilabadkar:** Okay, sir. And the decorative business, you said what is the volume, sir, this quarter for the decorative business?

**Mukesh Agarwal:** Volume is around 8,40,000 square meters from the decorative business in H1 FY '20.

**Moderator:** Thank you. The next question is from the line of Karan Bhatelia from Asian Markets Securities. Please go ahead.

**Karan Bhatelia:** Sir, you mentioned that both these joint ventures at peak can do Rs. 230 crore of topline and our investment will be 30%. So what amount is this 30%?

**Mukesh Agarwal:** 30% is close to Rs. 5 crores, . So in the first JV, we have invested Rs. 1.8 crore and in the second JV, we have invested Rs. 3.2 crore. As of September 2019, we invested entire amount in first JV. And in the second JV, we invested around Rs. 1 crore out of Rs. 3.2 crores.

**Karan Bhatelia:** Sir, on sales and distribution part, how many dealers, distributor we have and how many are exclusive out of them?

**Mukesh Agarwal:** So we have 1,870 dealers and we have around 6,000 sub dealers and retailers and in our trade, we do not have any exclusive dealers. So generally, dealer keep one brand which is a national brand and they keep 2 to 3 regional brands and few local brands.

**Rajesh Mittal:** To add on, like 90% of the dealers does not have the other national brand. So out of 90%, most of the dealers have national brand as only Greenply. They also have some unbranded products from Yamuna Nagar.

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

**Shrenik Bachhawat:** Sir, this is Shrenik Bachhawat from JM Financial. Sir, the recent boost that Finance Minister has given to the real estate sector, what do you think the implications will be over the next 2 to 3 years on plywood sector?

**Rajesh Mittal:** It will definitely have a positive impact on the plywood since lot of houses will be coming up, buyer will be there to buy the houses, . So they will definitely have some positive impact.

**Moderator:** Thank you. Our next question is from the line of Dharmendra Dave from Prabhu Das Lilladher. Please go ahead.

**Ajay Bodke:** This is Ajay Bodke. Sir, in the presentation, you mentioned that you are looking to increase the proportion of outsourcing to 35% over the next 3 years. And you're expecting that this asset-light model will help the company to generate higher ROCE. What kind of ROCs broadly, sir, you have in mind once the transition happens and you start outsourcing roughly 35% in value terms from 28% currently over the next 3 years?

**Sanidhya Mittal:** So our target for the next 3 years is we want to achieve a 30% ROCE pre tax and we'll be able to achieve that because going forward, our model whether it is the premium or whether it is the medium or the low end, everything is based on outsourcing. And just a few minutes back, we discussed the investment number in the JV, with a very minuscule investment; we will be achieving a very high turnover and a very decent profit margin. So all of this put together will help us achieve a much higher ROCE



**Ajay Bodke:** So from a 17.6% consolidated ROCE post tax currently, and from a 22.1% consolidated pre- tax ROCE, you look at 30% pre-tax ROCE. .

**Mukesh Agarwal:** On a half-year basis, pre-tax was 23%.

**Ajay Bodke:** Okay. For standalone basis?

**Mukesh Agarwal:** Yes, standalone. And consolidated basis 22.1%.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Rajesh Mittal:** Friends, I would like to thank you all for taking the time to participate in this call. We look forward to reconnecting post the announcement of our quarter 3 FY '20 results and would be happy to also respond to any queries you may have in the interim. Thank you very much.

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