



**“Rushil Decor Limited
Q3 & 9M FY2023 Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Rushil Decor Limited's Q3 FY2023 Conference Call hosted by Asian Markets Securities Limited. This conference may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of the future performance and involve risks and uncertainties that are difficult to predict. Actual results may differ from expectations, projections, etc., whether expressed or implied. Participants are requested to exercise caution while referring to such statements and remarks. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Karan Bhatelia from Asian Markets Securities Limited. Thank you and over to you.

Karan Bhatelia: Thanks Mike. Hi all. A very good morning and welcome all to the Rushil Decor Third Quarter & Nine Months FY2023 Earnings Conference Call hosted by Asian Markets Securities. From the management side we have with us Mr. Rushil Thakkar – Executive Director, Keyur Gajjar – CEO; and Hiren Padhya -- CFO. I now hand over the call to Rushil Bhai for his Opening Remarks. Thank you. Over to you!

Rushil Thakkar: Good morning, ladies and gentlemen and welcome to the Rushil Décor Limited Earnings Conference Call for the third quarter and nine months ended 31st December 2022. I would like to thank Asian Market Securities for arranging this call and all the participants for taking time to join this call. Today I am joined by Mr. Keyur Gajjar, Chief Executive Officer, Mr. Hiren Padhya, Chief Financial Officer along with Adfactors PR, our investor relations advisors. We have shared and uploaded the investor presentation on the exchanges and hope you all have gone through the same.

Let me share with you some of the key highlights for the third quarter and nine months during which we recorded growth of 26% and 46% respectively in our operating revenues. Both our laminates and MDF businesses have shown steady progress in this period.

Our laminates business registered a growth of 18% during the quarter. Laminates export grew by 41% compared to last year highlighting the strong demand of products manufactured by our Company in the global market. In the domestic market, with significant steps taken, we were able to improve price realization, which helped us achieve EBITDA margin of over 10% in the laminates business.

We have displayed positive performance in our MDF business during the quarter and have registered growth of 27% by value and 22% by volume. Realizations in the domestic industry for plain MDF were subdued as there was continued pressure from higher imports. However, we are confident that with the target of increased contribution from value added products, we are in a position to mitigate this trend and deliver significant growth in the coming quarter.

During the quarter, we have made substantial progress in our geographical presence by adding 80 new dealers/distributors for both laminates and MDF. This should further enable us in catering to a larger customer base and increase the visibility of brands 'RUSHIL' and 'VIR'. We are continuously collaborating with local carpenters across the country, conducting workshops to educate them on the benefits of MDF and also enhancing their skills on the use of MDF for delivering effectively to the end customer. We are confident that with these branding, distribution and channel partner connect initiatives, we should be able to achieve strong growth with stable EBITDA margins going ahead.

During the quarter, apart from supply pressures from imports of plain vanilla MDF products, there was also a marginal increase in wood prices. The contribution of these factors impacted EBITDA margins in the MDF business compared to Q2, even though there has been improvement on a year-on-year basis. However, to safeguard ourselves from these headwinds, we are working on various fronts to ensure we deliver steady expansion in margins going forward.

We are constantly engaging with various stakeholders to identify and collect data in terms of the requirement and preference of customers. Our in-house R&D team is continuously working to improve the durability of our products and develop more value added products. We have also identified a few areas where we can efficiently utilize and optimize our resources to boost our margins even further. We are timing our production schedule in a systematic way to deliver optimum capacity utilization in line with industry demand. This will help us to stay ahead and deliver our customers with quality products at reasonable prices.

These initiatives should enable volume expansion, higher realizations and greater productivity in both laminates and MDF segments.

On the debt reduction front, I would like to highlight that we have recently announced fund raise by way of rights issue which should help us significantly reduce debt. Apart from this, our healthy cash generation from operations will further support our capital requirements and strengthen the balance sheet.

Currently, we have a capex plan of Rs. 60 crore for our laminates business. This is to manufacture jumbo laminate sheets which we plan to export to the European, USA, Australian and other global markets. Work on this initiative is in full swing and it is expected to be operational by Q1 FY 2024-25.

That is all from my side, I would like to hand over the call to our CFO, Mr. Hiren Padhya who shall take you through the financial highlights. Thank you very much.

Hiren Padhya:

Good morning and thank you Rushil Bhai. Let me take you through key financial highlights for the Quarter and the Nine Months ended December 31, 2022. Our Q3 FY2023 performance has been in line with our expectation and gives confidence of achieving our set target for the financial year and going forward from there. So far as the quarter is concerned we have reported operating revenues of Rs. 210.3 Crores, a growth of about 26% compared to Rs. 166.8 Crores. This was driven by a strong growth in both MDF and laminate segments. MDF business revenues grew by 27% on year-on-year basis contributing Rs. 152.8 Crores in Q3 FY2023 compared to Rs. 120.6 Crores in Q3 FY2022. Laminates contributed Rs. 56 Crores in Q3 FY2023 compared to Rs. 47.3 Crores in Q3 FY2022 that is a growth of 18%. EBITDA for the quarter after adjusting for the forex loss stood at Rs. 38.1 Crores as against Rs. 19 Crores in Q3 FY2022 that is year-over-year growth of 101%. Net profit stood at Rs. 10.2 Crores as against Rs. 7.3 Crores in Q3 FY2022, again a growth of 40.5% on year-on-year basis. While EBITDA margin increased by 677 basis points in Q3 FY2023 to 18.1% as against 11.4% during the Q3 of previous financial year. PAT margin stood at 4.9% in Q3 FY2023. During the current quarter on MDF front our export volumes increased significantly compared to the quarter last year while our domestic volumes of MDF rose by 6% on year-on-year basis. For the nine months ended December 31, 2022 the net revenue from operation stood at Rs. 624 Crores a year-on-year growth of 45.5%. Here I would like to mention that last year turnover that is Rs. 624 Crores has already been achieved in the three quarters of current financial year. While MDF contributed Rs. 462.6 Crores in nine months there is a growth of 59%, laminate contributed

Rs. 156.5 Crores in nine months a growth of 12%. EBITDA for the nine months of financial year stood at Rs. 133.7 Crores as against Rs. 42.4 Crores in the previous year again a growth of 215% on year-on-year basis. This is again adjusted for the forex loss in the nine months period, net profit was at Rs. 64.1 Crores in nine months with a margin of 10.3%.

With this significant improvement in financial performance in nine months FY2023 we look forward to the financial year delivering outstanding numbers. This should also provide a robust platform for the next financial year. This is all from my side. I would like to now request operator to open the floor for question and answer.

Moderator: Thank you. We will now begin the question and answer session. We have the first question from the line of Karan Bhatelia. Please go ahead.

Karan Bhatelia: Hi Sir. Good morning. Thank you for the opportunity. Just wanted to have some clarity on the CVDs which we were expecting somewhere in the second week of January so what are the new timelines now and what percentage of CVD could protect or safeguard the domestic players that should be helpful?

Rushil Thakkar: First of all the judgement from the High Court has already been passed from Delhi High Court and till now we have not got the concrete judgement in our hand so we will share the details with you once we have the judgement in our hand. Thank you.

Karan Bhatelia: Thank you.

Moderator: Thank you. We have the next question from the line of Vineet Shankar from JM Financial. Please go ahead.

Vineet Shankar: Hi Sir. Thank you for the opportunity. Sir I just wanted to ask on price cut you have taken during the first quarter and during January and February?

Keyur Gajjar: I think there is no price hike taken place in our first quarter and even in the month of January, February or even in the last quarter also.

Vineet Shankar: So any price cut have you taken?

Keyur Gajjar: In last quarter we said that there was some effect of 3% to 5% in some areas not all areas.

Vineet Shankar: Can you highlight which area?

Keyur Gajjar: It was mainly South and West.

- Vineet Shankar:** You can also highlight the breakup of plain and pre-laminated MDF mix?
- Keyur Gajjar:** At present the overall ratio of MDF is almost 28% is our value added business and balance is our plain grade which includes exports too.
- Vineet Shankar:** Thank you. I have more questions I will come back in the queue.
- Moderator:** Thank you. We have the next question from the line of Keshav Lahoti from HDFC Securities. Please go ahead.
- Keshav Lahoti:** Thank you for the opportunity. Just wanted to understand your strategy because what we have seen other branded players have not taken the price cuts possibly you would have taken some price cut in south and west?
- Keyur Gajjar:** It is very difficult to say whether price cut is there or not, if I do not change my price list it does not mean that I have not taken the price cut. There are ways to pass on the credits.
- Keshav Lahoti:** You are saying more or less the price cut was in line with the industry always you are building like incentive or some other things so these are in line with the industry?
- Keyur Gajjar:** If you want to maintain your market share you can command premium at some level you cannot do all the things.
- Keshav Lahoti:** Just wanted to understand one more thing as we are hearing that imported MDF is selling at 25% discount versus players like you so the 25% is a very big difference so what is the normal levels?
- Keyur Gajjar:** Let me tell you that as on date the port landed cost if I talk about the highest selling product is around 15% to 18% and if we go further the central like Hyderabad, Coimbatore to all the places look at it far from sea areas then the price difference is only 12%.
- Keshav Lahoti:** As the price difference with imported MDF is increasing so will it be fair to assume there would be more price cut in Q4 or Q1?
- Keyur Gajjar:** No I guess you can see our volume and our topline so we really do not see, because this import prices is stable since September, October because they have reached to probably the bottom price. We do not see any further price reduction in selling price of imports and yes there are currency fluctuations like sometimes it is 81, 83 so this exposure is something that importers are considering so we really do not see any price cuts.

- Keshav Lahoti:** What sort of volume and margin you are looking in Q4 in FY2024?
- Keyur Gajjar:** We really want to make sure that we maintain our market share that is one of our priorities. So definitely it will help us to utilize our capacity also and yes we want to increase our value added business too because we can see that from our AP plant in Q2 our value added business was 9% now in Q3 it has reached to 13%.
- Keshav Lahoti:** Sir given a choice you will prioritize volume over margin even if it comes at a sense of a lower margin you will prioritize volume?
- Keyur Gajjar:** Definitely it is not a question of giving the priorities to volume it is all about balancing entire thing, that yes market share is very important we have to consider new capacity addition as well. So we have to maintain all the market share that is very important, but you can see that we did not take any price cut there was only one price cut that is all nothing much.
- Keshav Lahoti:** One last question from my side. Earlier we were listing the smaller players are adding various capacity like few hundred CBM plus the smaller players are importing Chinese machineries so after this MDF margin has decreased in last couple of quarters so possibly such players entry might now be restricted?
- Keyur Gajjar:** I think currently you can see that despite import, despite this new players with unorganized approach we are still able to maintain our business in a good manner. You can see that whatever the margins affected one reason is it is over the industry it is not only one company and number two forex loss is another part. So we are really not sure I do not think there will be any problems in the unorganized players and we really do not see much of the capacity additions in near future.
- Rushil Thakkar:** Also I would like to add here that the MDF industry is growing at the CAGR of 20% so the market is going to expand and everyone is going to get their own share but the difference here between unorganized player and organized player is about the machineries, we bring the German technologies to make sure that our efficiency is much more better than the secondhand Chinese lines.
- Keshav Lahoti:** I will just add one more question so the MDF import which is 20000, 25000 so is it at its peak or expect further pickup in this?
- Keyur Gajjar:** So my question is 20000, 25000 per month or quarter?

- Keshav Lahoti:** Per month.
- Keyur Gajjar:** I think it is between 20000 to 25000 and we really do not see much of increase because this is my personal belief, if I think these exporters to India are not making much business out of this export so probably further reduction in price is question mark and with this model one cannot bring imported MDF to northern region, central region or to the extent north east region. So we see some of the effects and we have already seen that part. Despite cheaper imports we are still able to maintain our volumes and prices.
- Keshav Lahoti:** If someone wanted to bring the MDF from south to north so what would be the additional cost we have incurred?
- Keyur Gajjar:** So you are talking about south to north?
- Keshav Lahoti:** South to north, I just want to understand.
- Keyur Gajjar:** This question is pertaining to imports or for us?
- Keshav Lahoti:** You can reply in both ways import and export.
- Keyur Gajjar:** I will tell you if you were to bring it from Malaysia or Vietnam the ideal port is Mundra so it is Mundra to North and ideally I think it is costing between 12% and 15% or maybe even 18%.
- Keshav Lahoti:** Understood. Thank you. That is it from my side.
- Moderator:** Thank you. We have the next question from the line of Manan Shah from Moneybee Investments. Please go ahead.
- Manan Shah:** Thank you for the opportunity. My question was on this forex loss of 11.6 Crores for the quarter if I look at our total export for the quarter laminates as well as MDF I think the total is about 58.2 Crores versus this forex loss of 11.6 Crores when the currency movement has been fairly stable between 82 to 80 and this 11.6 amounts to almost 20% of our total export so I wanted to understand why did we incur such a big forex loss and is it loss attributable still entirely to the MDF segment or it is for both the two segments?
- Hiren Padhya:** I think it is a good question. First of all the total loss which is 11.6 Crores is mainly attributed to MDF. Now when you are saying the export when we are just taking the exposure in terms of forex it is because of debtors and creditors and I think major part so far as we are concerned is from the loan, which we are already having as of now. So the loan

which we have taken for the purpose of AP project I think that has contributed major in terms of that forex loss because if you compare March versus December and even in terms of last quarter versus this quarter I think in both the cases in USD and euro both has depreciated and this has gone against us and I think you understand and appreciate also the accounting is required for the purpose of this notional entry, but yes the two things are there, one is the major part, I would say, see otherwise we have natural hedge in terms of export realization versus forex payment which is generally the import of raw material and other things. So here we have the forex loss mainly because of the loan which is outstanding as of now.

Manan Shah: My second question was that in your opening remarks you have highlighted that there was some increase in the wood prices during the quarter so if you can just highlight what sort of increase was this and if there has been any further increase in the wood prices post December?

Rushil Thakkar: The effect of the wood prices is roughly around 8% on an average in all the plants.

Manan Shah: This 8% is on a Y-on-Y basis or on a Q-on-Q basis?

Rushil Thakkar: It is on Q-on-Q basis and also we further expect to increase the wood price by 1% or 2%.

Manan Shah: I am asking is what could have been the factor for such an increase in the wood prices because I do not believe that there is any other MDF plant in our vicinity?

Rushil Thakkar: Yes, so basically, currently, the Andhra Pradesh is recording the highest number of sales in the rice and because of which the transportation cost has gone up.

Manan Shah: My next question was on the utilization levels of the MDF segment so now it has been almost two years since we started a new plant and we have not been able to ramp it up to almost 80%, 85% so we have been guiding that we will reach 85% by the end of this year however as it is visible in this quarter as well we have only been able to achieve 70% and plus we have this conti-booster technology which only we process in this country so what have been the reason why if you can just highlight a couple of reasons why we are not able to ramp up our utilization further?

Keyur Gajjar: In fact there are one or two reasons main reason is export we are consistently using around 4000 CBM per month that is our target and we are putting up good efforts like for instance in this quarter we have added almost 85 new channel partners and apart from this capacity utilizations we are focusing on value added capacity utilization also so we are very

optimistic of using this capacity by 80%, 85% in coming days for sure. This is one of our priorities even in my last call also I have clearly said that value added business, capacity utilizations and cost control these are the three factors and now we have added one or two more things that we want to focus on quality and service of product because now import quality is very inferior compared to the local players so we want to focus on our quality and services also and we want to maintain our market share. So definitely in coming days I am sure we will be able to do that part.

Manan Shah: What has been the value trade mix of the Vizag plant?

Keyur Gajjar: I think from 9% Q2 we have reached to 13% there is no comparing last year.

Manan Shah: Right definitely and what are we targeting by the end of this year?

Keyur Gajjar: It is very difficult to say, but our overall target is to reach 40% of entire sales so we are putting our best efforts, at present we are at the benchmark between 28% and 30%.

Manan Shah: My next question was on the laminate segment we have shown a remarkable improvement in the margins and the profitability of the segment so if you can just highlight what led to such a sharp improvement over here?

Keyur Gajjar: There are two, three main parts one is export demand was really good and realizations are better, raw material price are more or less under control or reduced, freight cost has been it is down like anything, as we can say it is pre-COVID level now.

Manan Shah: Because if I look at a blended realizations on a quarter-on-quarter basis our realization per sheet has come down from Rs.725 to Rs.720 and even in exports our realization is down but despite of this lower...

Keyur Gajjar: A lot of other things like when we talk about realization per sheet we are selling 0.5 mm sheet which maybe around \$7 to we are selling 3 mm sheets which maybe \$30, \$40. So we are now taking out this average. So when you have a low thickness volume then possibly your realization is down these are the reasons.

Manan Shah: What I am trying to say is that would freight cost be one of the major reasons for this sort of improvement in the profitability of this segment?

Keyur Gajjar: Freight is one of the reason I would say. There are so many other factors like price and raw material costs are quite under the control, we have increased our export volume if you see.

- Rushil Thakkar:** Also I would like to add here is the product mix as Keyur Bhai mentioned earlier the product mix plays a big role in calculation of our average price.
- Moderator:** We have the next question from the line of Mr. Achal from JM Financial. Please go ahead.
- Achal:** Good morning Sir, thank you for the opportunity. Sir can you help us with the number with respect to price difference between us and some of the other brands and also unbranded MDF?
- Keyur Gajjar:** Frankly we do not come across any unbranded competitions in the market, but yes it could be around 10% to 12% because that segment is completely different and I believe it could be around 8% to 10%.
- Achal:** So we are 10% premium to the unbranded MDF?
- Keyur Gajjar:** Yes you can say even if you compare imports, if you compare import blended price in Hyderabad or Coimbatore or Bengaluru we are almost 10% to 12% higher. I know it is bit technical but let me explain you. Whatever the boards we are offering it has some specifications, it has some parameters for performance, for instance our density is ranging from 720 to 740 or maybe 750 kg per meter cube when we are importing in itself in invoice itself we are mentioning 670 to 690 kg per meter cube, so these are the things which customer is also considering. It is not the same product what import is coming even in interior grade even in plain grade.
- Achal:** Compared to the other brands green panel how difference we would be compared to green panel similar board?
- Keyur Gajjar:** Technology is more or less same and we are working on our product mix we have our own way of marketing approach and they have their ways.
- Achal:** So you are saying we are similar priced compared to even the others?
- Keyur Gajjar:** No price is always some places is plus or minus I would not agree on that part because it is something price list is something printed.
- Achal:** When you say 13% of the volumes from Vizag plant is value added how do you define the value add is it basis the margin basis the category of the product what is it?

Keyur Gajjar: Yes. Because if we talk about our average realizations then it is maybe around Rs.23724 per CBM I am talking about AP realizations and when we talk about 13% value added realization it is almost like Rs. 35000 per CBM.

Achal: I am not very clear so you are saying anything about the blended realization is defined as value added is that?

Keyur Gajjar: We have a basic product that is interior grade that is just a plain MDF board its realization comes around Rs. Rs. 24000 per CBM but when you add some performance like high density or water resistance capacity or you put a paper and pre-lamination on it there are so many other things. So these are the category which is around Rs. 35000 and that is what around Rs. 35000 is our realization.

Achal: Just one clarification on the timber price can you help us with the timber price on a rupees per kg basis?

Keyur Gajjar: I am not sure but I believe it is around Rs.3700 per ton.

Achal: This is for 3Q average or the current price?

Keyur Gajjar: I think current price I believe I am not sure.

Achal: How about it was like in 2Q and 3Q average?

Keyur Gajjar: Q2 around Rs. 3400, Rs. 3500 per ton.

Achal: Thank you. I will come back in the queue.

Moderator: Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Hi Sir, thanks for the opportunity. Sir, one very simple question. How do we differentiate our products in the market place?

Keyur Gajjar: In terms of differentiation number one we have three category, one category we do not much focus that is unorganized player and all this new things, second is import again it is in their quality and our quality are different. As I said we focus on two basic para one is quality and other one is services number one. Number two in terms of pre-laminated MDF board today we have two ranges, one range is pre-laminated plus catalog which is a very different texture kind of a pre-laminated and then another segment is laminate MDF where

we have 100 plus new colors every two or three months we keep adding 5, 10 new decors according to the designs and fashion trend in the market so we focus. Number three we definitely demonstrate our products to all the end-user including carpenters, OEMs and all these people so our focus target is we straightaway approach our end-users and channel partners in terms of sales and marketing and we demonstrate our product and we inform about our quality.

Ritesh Shah: Sir is there any way in which we actually compensate or encourage the carpenter to use more of our products do we have the technology in place?

Keyur Gajjar: I think all the organized companies probably they have some kind of loyalty programs.

Ritesh Shah: What percentage of sales would that be?

Keyur Gajjar: Very tough to say because it is just not in a very large scale like laminates but in MDF it is now picking up.

Ritesh Shah: Any numbers over here?

Keyur Gajjar: No I do not think I can give it right now, I do not have that figures with me.

Ritesh Shah: My second question was what is the difference between VIR MDF and be it HDFWR basically I understand the product proposition that if one has to look at it from a pricing and a margin standpoint how different would that be?

Keyur Gajjar: You know VIR MDF it is a plain basic MDF I am sorry VIR MDF. Now when we talk about HDFWR it is a High Density Fiber Board Water Resistance Board. The density of standard MDF board is around 720 to 740 and this board is almost 840 to 880 so we are talking about 20% more density and it is on a performance like other parameters are tremendously great this product is used mainly in kitchen and wardrobes and in terms of realization it is almost 1.5 times more and if we talk about margins definitely it has much better margins.

Ritesh Shah: Sir possible to quantify something on the margin profile please?

Keyur Gajjar: Margin side I would definitely say it will add another 15%, 20% minimum.

Ritesh Shah: How do you mean the competition in the market place perspective this particular product like is it unique to us or are there other players also who have similar product?

- Keyur Gajjar:** Mainly we do not see much of imports in this category and all organized players are working hard to promote this product including us and we are very confident about grabbing our market share in coming quarters.
- Ritesh Shah:** This is very helpful and the last question was more on sourcing of wood. How do we ensure that the wood which is being sourced is ethical in nature any policy that we have in place at the company level how should we understand this?
- Rushil Thakkar:** We have a general criteria of fixing up the wood how the moisture level of the wood should be and basically it is all agroforestry so we have certain parameters which has to work and this is the most ethical practice of purchasing the wood.
- Keyur Gajjar:** Basically we are not sourcing product from forest we are using agroforestry.
- Rushil Thakkar:** Also I would like to add here that we are carrying out a program for developing more agroforestry like in last couple of years we have already grown more than 12 Crores Trees we have taken a mission to grow 4.5 Crores trees this year as well and we will be keep on doing this so we make sure that we do a healthy agroforestry and which will give us the healthy raw materials.
- Ritesh Shah:** Some numbers over here which is quantifying or qualifying that whatever wood that the company produces it is from agroforestry is that something which is audited I am not very sure I am still learning the sector so how should one understand this?
- Rushil Thakkar:** Basically in India the government is not allowing to cut any kind of a forest so the material which has to be used are always from the agroforestry so we educate the farmers on this for developing their farms and converting their farms into the agroforestry. Just for an example we take a boundary wall of the farm where a farmer will be growing some kind of a vegetable which is ideally not used where we teach them to make sure that you can grow a agroforestry on your boundary and that can be catered our raw material and which can also help into protect his farm.
- Ritesh Shah:** Sure this is quite helpful. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.
- Sarvesh Gupta:** Good morning Sir. Most of my questions have been answered. Just on this forex loss can you quantify that what was the average loan outstanding in foreign currency during the nine

months and what was the percentage because the percentage depreciation in rupee would be much larger so the impact of 11 Crores, 12 Crores is something that I could not understand can you quantify?

Hiren Padhya:

If you see our overall debt, overall debt is in the range of 350 Crores I am not including the unsecured loan from the promoters. Now out of that almost 200 plus Crores there are two loans one is in USD and one is in euro the amount is around 200 Crores and I think the difference in terms of forex rate I think you know if you compare with March and again there is a difference of Rs.8, again if you compare dollar and euro both way I think this has drastically changed that the overall exposure in terms of rupee is around 200 plus Crores so far as the foreign currency loan is concerned and that is how the loss amount can be attributed substantially to foreign currency loan.

Sarvesh Gupta:

No sir, that 11 Crores, 12 Crores, actually looks to be lesser than what it should have been if you are adjusting for it?

Hiren Padhya:

We already have natural hedge in terms of normal outstanding maybe it is export may be import but the net impact after adjusting the natural hedge benefit so the net impact is this and this is not one particular currency it is both way one way it is euro and another way it is USD so the combination of both of them will come to this particular figure, in the previous quarter and even last year also we have positive impact but for the last one quarter specifically we have this losses.

Sarvesh Gupta:

So when we have taken this loan we have not hedge our exposure to this loan buying forward contracts?

Hiren Padhya:

When we have got this loan so far as the euro loan is concerned it was like at the rate of 0.85% only, but because of the last three, four months RBI initiatives in terms of increasing rate that has affected and our cost which was 0.85% has reached to more than 3% now and similarly in terms of USD also, which was again linked with LIBOR but so far for the last almost one year we have not seen any major fluctuations and that is how we had covered but it was not covered fully because that is natural hedge factor, but recently because of this drastic change it has affected but now internally we have taken it very seriously and we are just taking some action in such a way that we should not have such situation in future.

Sarvesh Gupta:

Because otherwise every quarter depending on how the exchange rate movement is you will have a forex loss or income going forward?

Hiren Padhya: Yes, it is like as per the IND AS guidelines and we are just following that guidelines only. So as per the suggestion of auditor and see as a policy if you compare with other company each company has a different policy to disclose in financials differently so as of now we are just so far as profit is concerned we are showing in other income and if it is a loss then we are showing in other manufacturing expenses. So unlike other companies we have not shown it in finance cost and secondly as of now we do not have any project which is running so there is no such thing to be capitalized so far current quarter is concerned.

Sarvesh Gupta: We are almost through with this financial year so what will be the kind of revenue guidance and EBITDA margins for the coming year in laminate and MDF?

Hiren Padhya: I just will not be able to give you the exact figure but I can definitely tell you that current quarter has impact of price and other things and because of this forex loss but so far as I understand the current quarter that is January to March there will be so much forex fluctuation that is what I believe but I may be wrong also. So far as the overall margin is concerned I think as Keyur Bhai has said we are already working on couple of things where on one side value added products we are just increasing, secondly we are putting our efforts in terms of increasing capacity and third we would like the overall optimization of cost so we would definitely maintain our margins which is there in the nine months figure as we will definitely maintain that margin.

Sarvesh Gupta: I meant for the FY2024 Sir next year what kind of growth and margins we are looking at?

Hiren Padhya: See growth wise I think 15%, 20% growth in terms of revenue is definitely there and margin wise we will improve that is for sure.

Moderator: Thank you. We have the next question from the line of Krishna S from Vihav Advisors. Please go ahead.

Krishna S: Thank you very much for the opportunity and I guess the management is really working hard considering the external factors also because we are living in a world where we are very much codependent on the external factors, global factors and all, so having said that and plus most of my questions have already been put up but one or two questions remain so one among that is that like if we consider the current quarter gone by which is the third quarter of the current financial year adding that the forex losses so can that be considered as a reasonable figure going forward for the next two, three quarters for profitability?

Hiren Padhya: I think this quarter is abnormal quarter so far as the forex loss is concerned not for me for everybody I think across the industry and you can also understand what we said that part.

So far as our part is concerned as I said in the earlier question we do not see much more fluctuation just like last quarter fluctuation may not be there in the current quarter and I think way forward I am not able to give you any comment on that part so far as forex part is concerned. So far as this profitability is concerned we are looking forward in terms of very positive so far as the improvement in terms of margins it is definitely there in the next one year.

Krishna S: So in short to put it very simply so once we add that the foreign loss so like if you eliminate the impact of the forex loss so what are the profit we are looking at in the current quarter more or less that could form a base or from which we can try to grow through the cost cutting measures and cost optimization measures so would that be a fair assumption?

Hiren Padhya: You can say that base also and we can tell you that in the future we will definitely improve that is for sure.

Krishna S: Thanks for that and the second question is that with respect to the rights issue so rights issue finally we have come up with a figure of around Rs. 125 Crores roughly here and there so now this 200 we have taken an approval so any chance of going for further or we will restrict to that figure that we have filed the Draft Letter of Offer?

Hiren Padhya: As of now as per the filing which is done and as per the first filing the draft filing we have already put that figure and as per the SEBI guidelines and the LODR we can increase this amount by 20% or we can decrease this amount by 20%. So from Rs. 124 Crores to we can go up to Rs. 149 Crores on upper side and we can restrict our rights issue at around Rs. 99 Crores also. So within next couple of days we will just decide internally and we finalize the couple of things in terms of rights issue one is the pricing part and second is the timing also because see we are looking forward in terms of this rights issue and as we mentioned in the object we would like to reduce this promoters loan by adjusting into equity that is first part and that amount is around Rs. 57 Crores, remaining part is like working capital where we are looking at the couple of opportunities in the operational level not the expansion part. See when we started this project in AP last year we had an exposure of working capital which was around Rs. 84 Crores in term of CC that is fund based facility now even after this achieving capacity of 70% plus and still we have not increased this working capital facility and we are managing the same thing within this limit only. So considering today position the way we are looking at way forward I think in terms of export, in terms of other benefits and in terms of areas in India also so we may need some working capitals and that is how we have planned in such a way that in case of such requirement we can definitely get through that working capital immediately and that is how we have planned for this right issue. So if you see this happens as per our internal timeline so it should complete if there is

no change in terms of management decision then I think we will be able to complete this rights issue in March, if that is the case then in terms of debt 57 Crores will be reduced so far as promoter part is concerned and secondly as per the normal repayment schedule we are only repaying that will be around 45 Crores. So practically in March balance sheet compared to March 2022, March 2023 will have at least 100 Crores less in terms of debt and secondly if you compare with profitability in last March versus March 2023 I think we will be in a better position and that is already evident in the last two three quarters. So our debt equity ratio will decrease like anything so that is what we are planning and secondly when right issues already completed in March I think we will be sitting on cash comfortably so far as March is concerned.

Krishna S:

Great it seems to be a good calculation Sir, I think great so I think the way that we are strategizing we should look at it and then I think it will be good and now what will be the last question. So the foreign currency loan so though it looked in the initial stage but this is the experience of many companies at later stages because of the exchange rate fluctuation that foreign currency loan starts to look little bit that benefit is diminished with respect to the rupee loan so what has been the experience of the company, so in the future like because has the company will come to the conclusion that forex loan vis-à-vis the rupee loan the advantage is not much and what could be our take for the future expansion?

Hiren Padhya:

In terms of when we have planned for the loan it was very, very lucrative I will just give you example of Euro loan that is 0.85% and we are considering the hedge I think the natural hedge which we have so far it was very, very competitive and in terms of our finance cost till last quarter our finance cost in terms of overall it was in the range of 5% to 6%. Now last quarter this has changed and that has changed by at least 2% to 3%. Now coming to your question see we are already looking at the option of converting this loan into rupee loan also; however, I think we will have to have couple of options and then we will decide on this part but so far I think our experience is very good, so far we have not find it is having any further cost but then after having this quarter we will definitely internally look at it and we will plan to either hedge at some extent or we can also plan for converting some part of the loan into rupee loan also that is also possible.

Krishna S:

Understood Sir, fair enough that is all from my side. Thank you very much Sir and good luck for the ways ahead.

Moderator:

Thank you. We have the next question from the line of Hena from DAM Capital. Please go ahead.

Hena: Thank you for the opportunity. I just wanted some understanding on laminates. On the domestic side we are hearing that organized competition is something back so that has been happening and the second would be on raw materials the prices cooling off are we passing that onto the channels or are we retaining some part of it?

Keyur Gajjar: I think domestic side you are talking about demand am I right?

Hena: Yes, demand basically unorganized players are coming back in a big way into the market is that probably true, is that impacting demand?

Keyur Gajjar: No, it since long, they are not the first one coming now it has been years so it is something not there. Second thing we are almost if we talk about our exports mix, nine months is almost 65% is our exports and 35% is domestic market and we are focusing our product in a different segment where interior and specifiers are working. That is one of the reason as long as the raw material price is concerned I think it is quite stable it may go down it may not increase further.

Hena: Yes, so I think chemical prices have already gone down right?

Keyur Gajjar: Chemical prices are stable.

Hena: If they further go down then will we be passing that onto the channel or would we be gaining?

Keyur Gajjar: See it is case-to-case not necessary company like us so we are working more on a specifier and all these places so we have a more of a promotion and sales promotion scheme and all we do not see any pass on.

Hena: On the export side we hear that Europe is slowing down when it comes to demand so would that be impacting us?

Keyur Gajjar: No we do not export a lot in America and Europe we are more or less exports in Asia, South East Asia and Gulf countries.

Hena: So there we do not see any problem?

Keyur Gajjar: No we see in fact very good demand there.

Hena: Thank you so much.

Moderator: Thank you. We have the next question from the line of Arun Baid from ICICI Securities. Please go ahead.

Arun Baid: Can you help us when you mentioned that the margins in MDF will be maintained was that with the context of Q3 margins or nine month margins?

Hiren Padhya: I think I have already mentioned very categorically when we are talking about future I am just talking about the nine months margin.

Arun Baid: Which is about ballpark 26%?

Hiren Padhya: Exactly.

Arun Baid: On the export realizations have they come down further from the reported numbers of roughly 19000 in Q3?

Keyur Gajjar: Yes, I think it is more or less stable now.

Arun Baid: It is in our sustained number as Q3?

Keyur Gajjar: Yes, because now we do not see much of a change in freight also and selling prices are more or less same.

Arun Baid: Just one more data point is how the margins different as compared to exports and domestic?

Hiren Padhya: Costing is different definitely but I just cannot comment exactly in terms of percentage or a value but if you compare last couple of quarters I think we have improved in terms of volume so far as the export is concerned and we are just trying to maintain the margin as of now. These are compared to last financial year and COVID impact yes there was impact but then now it has been stabilized so this margin will continue that is what I can tell you.

Arun Baid: I appreciate your point just a ballpark like if theoretically let us assume that domestic is X then export would be what 0.7x, 1.3x how should you look at it?

Hiren Padhya: If you just see our realization in terms of domestic realization is around in the range of 24000. Now coming to export it is in the range of 18000 so I think it is very evident in terms of realization part. So far as the costing part is concerned there may be a difference in terms of cost component considering the specific cost it is attached to this export. The realization wise it is 24000 overall versus 18000 odd.

Keyur Gajjar: I would like to add there are some hidden benefits too. Number one in exports normally we have only one or two or three thickness and we have done this production for a day or two or something like that so we save a lot on this part. Second thing applications of marginal cost, third thing utilizations of capacity, fourth thing maintaining our market share in export because we have decided that we will definitely promote 3000 to 4000 CBM per month in region where MDF we can export and because we are talking about natural hedge also these are some of the benefits and last thing which we do not forget is we have obligations also so we have to export certain quantity.

Arun Baid: You are more or less utilizing your capacity by 60% on a full capacity this number next year for the full year we should look at what percentage as capacity utilization?

Keyur Gajjar: I think what we are talking about is 80% to 85% that is our target minimum so we are working hard on this part not only 85% but we are also trying to go more if we get an opportunity in export market or anywhere so we are ready for 90% /100% whatever but that is our goal and as long as our value addition is concerned I think in my previous call also I have mentioned that we want to reach to 40% to 50% now we are doing almost 62% to 65% from Chikmagalur plant.

Arun Baid: Assuming we can do 80%, 85% which is your target the mix could be similar between domestic exports?

Keyur Gajjar: No, I believe we have a target of 4000 CBM per month that is what our target is so we want to go around 48000 to 50000 CBM per year.

Arun Baid: Right Sir thank you very much.

Moderator: Thank you. We have the next question from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.

Rajesh Kumar Ravi: Hi Sir. Good afternoon. I joined in late I may have missed some of your remarks. First is on the MDF if I look at export versus domestic why is there such a sharp difference say the imports landing in India and even export margins that even Indian companies make compared to domestic margin we understand that there is a sharp difference export margins are very low so is it that the production cost for Indian manufacturers are much higher compared to this company from South East Asia?

Keyur Gajjar: I think if I am not mistaken there are I think players like from Thailand and Vietnam they are exporting in gulf region and more or less our price and their price are same and second

part there is a change in realization could be FOB and CIF part also. Otherwise whatever that rate difference Thailand or Vietnam is getting that is their benefit or loss and whatever the trade benefits we are getting that is our loss or profit. However market is there and I think it is almost like for example \$200 so probably it is more or less same for Indian players or Thai player or Vietnam player it is always on CIF basis so this could be the reason.

Rajesh Kumar Ravi: What I am trying to understand the Southern ports the imports which are coming in they are at 10% to almost 20% cheaper compared to the cost of Indian producers why should there be such a large difference and assuming the exporters to India would not be selling at very thin margin or a loss is that understanding correct?

Keyur Gajjar: If we talk about their realizations it is more or less same if we consider whatever the price they get for Dubai for instance or Jebel Ali Port or for Chennai port more or less the realization is only \$4 or \$5 plus or minus that is all. Now another thing is very important is they do not have demand for Europe market or American market so for them selling this capacity is very important they cannot sell some quantity or 100% quantity to one country otherwise that price will fall so they always balance, so some parts they sell it to gulf some parts they sell it to India.

Rajesh Kumar Ravi: Is it pertaining to what the situation we would be looking at for at least next one, two years when the India is adding good chunk of new capacity?

Keyur Gajjar: I really doubt one, two years is pretty long time.

Rajesh Kumar Ravi: What I am looking at for next one year and two years India in this capacity which are coming up because we would also be looking at domestic obviously there is no contesting that India is looking at strong growth opportunities and hence all these capacities eventually will get absorbed and more would be required?

Keyur Gajjar: Adding capacity is not going to be at 100% from day one.

Rajesh Kumar Ravi: No, where I am coming in from like India is also exporting at low margins as an opportunistic sales is it the similar situation that the imports landing in India at low cost is more of an opportunistic sales and not the recurring sale which is meant for Europe and all so once demand improves in Europe, US markets the supply pressure from exports landing in India that may reduce?

- Keyur Gajjar:** Definitely there will be increase in the price and that will also help us Indian player because indirectly even in other market country like gulf and all these places there will be price increase so indirectly it will be benefit for us also when it comes to exports not only competition and second part is maintaining volume is very important for every company in Indian market and at present if you see from Q2 despite import if we talk about our sales volume in Q2 it was I would say we did at around 54000 CBM now in Q3 we did it around 57000 CBM.
- Rajesh Kumar Ravi:** How much of this is exported sorry if I missed that?
- Keyur Gajjar:** Total export plain and pre-lam comes around 13000 something and last quarter it was around 10000.
- Rajesh Kumar Ravi:** So you are seeing good jump in your export volumes?
- Keyur Gajjar:** As I said our target is to maintain 4000 CBM per month.
- Rajesh Kumar Ravi:** So you are close to run rate now you have already achieved that run rate and this will be maintained?
- Keyur Gajjar:** We have certain export obligations to.
- Rajesh Kumar Ravi:** Correct. So incrementally your growth will be driven by domestic market penetration only?
- Keyur Gajjar:** Yes, domestic market was good for us, if we talk about last quarter it was I would say around 44000, 45000 CBM now this time it is 45000 so we can see around 2%, 3% growth in domestic market too and importantly from value addition point of view from our AP plant we have grown from 9% to 13% that is very important.
- Rajesh Kumar Ravi:** You said that around 26% margin could be sustainable numbers here on 25%, 26% range we do not see any major risk to that margin numbers?
- Keyur Gajjar:** No.
- Rajesh Kumar Ravi:** Laminates this quarter margins 10% seems to be better off compared to the preceding many quarters so do you see this has now a structural improvement?
- Keyur Gajjar:** Yes, we believe it will have a good improvement in coming days.

- Rajesh Kumar Ravi:** Is it because more value added products what you got is you are able to sell higher in exports market where the value addition requirement is more?
- Keyur Gajjar:** Yes, you are right it is all about product mix number one, it is all about price decrease in freight also, number three we have a quite stable raw material pricing even some places is going down to and demand is really good so I think there are so many factors.
- Rajesh Kumar Ravi:** Last question can you give the PVC EBITDA number?
- Hiren Padhya:** If you consider the overall volume in terms of value and volume it is hardly 1% of total sales so it is immaterial so far as the figures are concerned.
- Keyur Gajjar:** I would answer this question if we talk about nine months from -13% to -6% so we have a substantial improvement in 7% to 8% and if we compare from our last quarter from -16% to -6% so we have improved almost 10% in terms of EBITDA margin.
- Rajesh Kumar Ravi:** MDF how much is the forex loss?
- Keyur Gajjar:** My mistake last quarter it was 7% now we have reached to -2% so we are very close to the target and last financial year I am sure -13% to -2% So we are doing quite good if we compare it. If we talk about nine months comparison from -16% EBITDA we have reached to 1% EBITDA so we are now positive part.
- Rajesh Kumar Ravi:** Forex loss how much is there in the MDF and all because what you have reported is ex of forex loss?
- Hiren Padhya:** As I mentioned in the earlier question also the total loss is around Rs. 11.62 Crores it is substantial portion is from MDF only and that to basically the outstanding term loans which is there in terms of euro and USD.
- Rajesh Kumar Ravi:** But that had to be booked through EBITDA only that should go through into the interest cost right not in the EBITDA portions?
- Hiren Padhya:** No it is not that way see there are couple of ways to manage these things. We have followed the accounting policy where there is a profit we are just showing it in the other income and so far as if it is a loss then we are showing it to other manufacturing cost. Now coming to your question see when it comes to finance cost generally it is like whenever there is accounting policy which is decided that any differential part in terms of foreign currency loan versus same loan if it is taken in domestic currency then the differential part we can park in this finance cost but it is again for company's policy which each company to follow

and this has to be consistently followed. So we are following as I said profit in other income & loss in other manufacturing cost and if it is a part of the cost which is before starting the actual production of an expansion or a capex then definitely we can capitalize that part so far as we are concerned we do not have anything which is being capitalized as of now.

Rajesh Kumar Ravi: For nine months this forex loss would be how much, which has gone in other expenses?

Hiren Padhya: It is Rs. 11.62 Crores.

Rajesh Kumar Ravi: Only everything is in this quarter?

Hiren Padhya: It is Rs. 12 Crores so far as nine months is concerned for quarter it is Rs. 11.62 Crores.

Rajesh Kumar Ravi: So most of the losses is incurred in this quarter which has entered the reported EBITDA margin significantly?

Hiren Padhya: Yes.

Rajesh Kumar Ravi: I think that is all from my end Sir. Thank you, all the best.

Moderator: Thank you. That was the last question. We would now like to hand it over to the management for closing comments.

Rushil Thakkar: Thank you once again for your interest and support. We will continue to stay engaged. Please be in touch with our PR agency Adfactors, our investor relation team for any further details or discussions. Look forward to interacting with you next quarter. Thank you.

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