

# Management discussion and analysis

## Global economy

The global economy faced a rough patch during the first three quarters from January-September 2019, leaving several market experts concerned. The signing of a trade agreement between the US and China was seen to be distinct progress; however signs that the UK would leave the European Union led many to believe at that time that we could be entering another recession. Ultimately, Brexit did take place in January 2020.

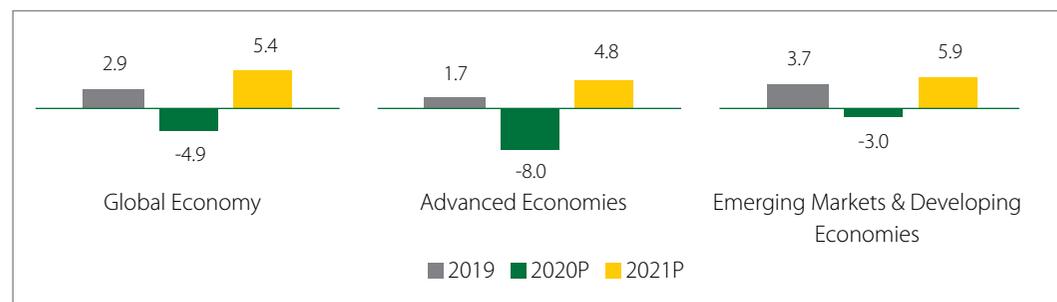
The year overall was challenging for the economy. The world output was estimated to grow at its slowest pace overall at 2.9%, lower compared to the crisis of 2009, declining from a subdued 3.6% in 2018 and 3.8% in 2017.

Uncertainties, although declining, were still elevated due to the protectionist tendencies of China and USA

and rising USA-Iran geo-political tensions. Towards the end of the year in December, 2019, the world was faced with a great misfortune. After a century, we encountered with what we today call the COVID-19 pandemic, 100 years after the Spanish Flu that killed millions between 1918 and 1920. The world continues to strive in search of a vaccine to protect and save lives from complete country lockdowns faced the world over.

At this point though we are witnessing slow recovery and opening up of economies worldwide in a phased manner. Although the year 2019 was not impacted by this pandemic, the real macro and economic effect is to be seen in 2020. Below are global GDP growth projections from the IMF that aid us in understanding the expected trends up to 2021.

## Global GDP growth projection, %



Source: IMF's World Economic Outlook Update, June 2020

## Indian Economy

Sources: <https://timesofindia.indiatimes.com/business/international-business/is-world-economy-sliding-into-first-recession-since-2009-heres-what-experts-sense/articleshow/71581590.cms>

<https://taxguru.in/finance/state-indian-global-economy-2019-20.html>

Source: IMF's World Economic Outlook Update, April 2020

## Indian economic overview

Overall, the Indian economy slowed down to a 11-year low of 4.2% in FY2019-20, compared to 6.1% in FY2018-19. Retail inflation climbed to a six-year high of 7.59% in January 2020, breaching the Reserve Bank of India's (RBI) upper band of 6% and then settled at 5.91% in March 2020. The nominal exchange rate (the Indian rupee or INR vis-à-vis the US dollar) exhibited sizable two-way movements during October-December 2019. The INR came under intensified and sustained depreciation pressures beginning mid-January, reflecting a generalised weakening of emerging market currencies amidst flights to safety. Accordingly, the baseline assumes an average of INR 75 per US dollar.

The combined expenditure of Central and State Governments exceeded revenues, translating into a greater level of public Debt-to-Gross Domestic Product (GDP) ratio. At around 69% of GDP for the Financial Year 2019-20, India's public debt was relatively large in comparison with other major emerging market economies. [Source: [https://www.business-standard.com/article/economy-policy/india-s-fiscal-gap-one-of-the-highest-in-emerging-markets-report-120020801150\\_1.html](https://www.business-standard.com/article/economy-policy/india-s-fiscal-gap-one-of-the-highest-in-emerging-markets-report-120020801150_1.html)]

The Monetary Policy Committee under RBI reduced the policy repo rate to 4.40% from 6.25% in FY2018-19 to mitigate the risks arising amidst the deteriorating economic conditions. Crude oil prices softened to reach US\$51 per barrel in March while the price of Brent crude crashed to US\$23 per barrel in late March 2020.

With food inflation hitting 14% in December 2019, rural India was among the worst hit by the current economic slowdown. Growth in nominal rural wages, both for agricultural and non-agricultural labourers, remained subdued averaging around 3.4% and 3.3%, respectively, during financial year 2019-20 (up to January 2020) mainly reflecting a continued slowdown in the construction sector. The nominal per capita net national income was estimated at ₹135,050 in financial year 2019-20, up 6.8% from ₹126,406 in financial year 2018-19. The Government's fiscal deficit widened to 4.6% against the revised target of 3.8% because of low GST and custom collection along with declining revenues caused by a cut in corporate tax rates. [Source: <https://economictimes.indiatimes.com/news/economy/indicators/fiscal-deficit-widens-to-4-6-of-gdp-in-2019-20/articleshow/76093931.cms>]

On the positive side, India emerged as the fifth-largest world economy in 2019, overtaking the UK and France, with a GDP of US\$2.94 trillion.

The outbreak of COVID-19 and the subsequent lockdown are expected to moderate aggregate demand and create economic challenges. Along with some major economies around the world, India will be impacted by this pandemic. India's estimated gross domestic product (GDP) for the fourth quarter of FY2019-20 declined to 3.1%, reflecting a part of the impact of COVID-19 on the economy. To mitigate the reality, the Government announced the Prime Minister Gareeb Kalyan scheme worth ₹1.7 trillion, providing relief to the poor and migrant workers through measures like direct cash transfer to farmers, increased wages under MGNREGA scheme and the utilisation of welfare funds for construction workers.

The intensification of social distancing measures is expected to lead to supply side as well as demand side shocks. Fiscal and monetary stimulus measures undertaken by the Government and Central Bank are expected to provide reasonable support to the economy. Benign inflation that allows room for monetary easing and comfortable forex reserves levels could add to the economy's resilience.

## Growth of India's GDP in FY2019-20

	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Real GDP growth (%)	5.2	4.4	4.1	3.1

(Source: Economic Times, CSO, Economic Survey, IMF, RBI, Franklin Templeton)

## Key government initiatives

**National infrastructure pipeline:** To achieve a GDP of US\$5 trillion by 2025, the Government announced National Infrastructure Policy with an investment plan worth ₹102 trillion in five years. [Source: <https://www.livemint.com/news/india/nirmala-sitharaman-press-conference-live-updates-1157776670321.html>]

**Corporate tax relief:** Indian companies were unable to compete globally, with the cost of capital and corporate income tax (CIT) being significantly higher than overseas competitors. In view of this, the Government moderated corporate tax to 22% from 30% to promote investment, subject to a condition they do not avail any incentive or exemptions. Further, in order to boost the Make-in-India initiative, a new tax rate of 15% was introduced for new domestic manufacturing companies. The new effective CIT was 25.17%, inclusive of a new lower surcharge of 10% and cess of 4%. India's CIT is now closer to the worldwide average statutory CIT of 23.03%. [Source: <https://economictimes.indiatimes.com/news/economy/sitharamans-tax-cut-move-why-it-matters-so-much-for-india-inc-economy-and-modi-govt/articleshow/71228078.cms#:~:text=Finance%20minister%20Nirmala%20Sitharaman%2C%20aiming,for%20new%20investment%20in%20manufacturing.>]

**Economy relief package:** To counter the challenges arising owing to the COVID-19 outbreak, the Government of India announced a relief package worth ₹ 20 lakh crore (a post-Balance Sheet development).

## Outlook of the Indian economy

Although the Government responded with an accommodative fiscal and monetary policy, the lockdown halted economic activities in the first quarter of FY21. Further, cases continue to rise in several places across the country necessitating a resumption of the lockdown. The Indian economy is expected to contract by 4-5% in FY21.

## Indian furniture segment overview

The Indian furniture market was estimated to cross US\$32 billion in 2019 compared to US\$21 billion in 2018, on the back of growing real estate and hospitality industries. The wooden furniture sector was dominant in the furniture segment.

On the supply front, India's furniture market is categorised into domestic and imported segments. In both cases, the unorganised segment dominates the

Indian furniture market, owing to cheaper products in comparison to the ones available through the organised channel. The Indian furniture market is also further segmented into the residential and commercial segments.

The demand for furniture was concentrated in the northern and southern zones of the country. The Southern region continued to be the leading generator of revenue as the distribution network of furniture manufacturers continuously expanded. Kerala was among the major suppliers of wood which was widely used as raw material in the country's furniture market.

The global lockdown had a major effect on virtually all business sectors, including the furniture sector and related sectors like real estate, retail market, e-commerce etc. Production shutdown, raw material supply obstructions, supply chain disruption, interruption in labour flows and a complete shift in consumer sentiment were manifest; furniture sales took a backseat. In view of this, growth estimates for foreseeable future are impossible to make. (Source: TechSci Research, Economic Times, Ciston, KPMG)

## Plywood sector overview

Plywood is available in four types (structural plywood, external plywood, internal plywood and marine plywood). Plywood possesses structural strength coupled with flexibility; it provides resistance against chemicals and fire; it provides insulation against sound-vibrations and excessive heating. Due to these properties plywood is preferred in the manufacture of doors, stairs, external cladding, flooring, framing, interior rails and balustrades, internal panelling and timber joinery products. Special grades of treated plywood are used in the marine industry, designed to withstand occasional exposure to seawater without decaying or deteriorating.

## Plywood industry: Raw material procurement overview

**Phenol price volatility:** The plywood and PVC board segments are passing through uncertainty pertaining to raw materials. A stability in raw material prices offers some comfort for manufacturers. In 2020, increased phenol prices could emerge as the biggest disruptor, impacting the plywood industry.

**Timber price volatility:** Further, a stay order on new wood-based industries in Uttar Pradesh affected timber prices at the end of the year. The addition of new facilities manufacturing MDF, particle boards and modern plywood could strengthen timber prices.

**Forest cover growth:** India is one of the few countries with a consistently increasing forest cover. The existing total forest and tree cover of the country was estimated at 80.73 million hectares, accounting for 24.56% of the geographical area of the country. Further, there has been an increase of 5,188 sq. km in the total forest and tree cover of the country in 2018 over 2017. Of this, the increase in forest cover was estimated at 3,976 sq. km. and that of tree cover at 1,212 sq. km. This resulted in an increase in the range of forest cover in open forest followed by very dense forest and moderately dense forest. The top three states showcasing increase in forest cover were Karnataka (1,025 sq. km) followed by Andhra Pradesh (990 sq km) and Kerala (823 sq km). (Source: Ply Reporter, Telesivory)

## Growth drivers

**Rapid urbanisation:** Rapid urbanisation in India and a burgeoning demand for modular and compact furniture catalysed the growth of the furniture market. Growing urbanisation in Indian states like Gujarat, Maharashtra, Tamil Nadu and others widened the construction of housing societies. India's urbanisation of 34% is expected to grow, strengthening growth of the furniture market.

**Growth of the real estate sector:** The growth in the services sector, which now constitutes >50% of the GDP, led to the development of the realty sector. The office furniture segment catered to the commercial and office space. The thrust on real estate and office construction is expected to sustain, indicating continued growth for the furniture industry. The contract segment caters primarily to hotels and its growth is consequently linked to growth in tourism and development of new hotels.

**Growth of the premium furniture market:** High-end furniture is considered to be a 'status symbol' or an item which has 'flaunt value' for the premium and ultra-premium consumer. Consumers are also opting for premium furniture while decorating their home offices. The demand for luxury home decor is growing gradually in the country and is expected to drive the demand of organised furniture sector.

**Rise of the e-retail sector:** Rising investment in the retail sector by various national and international entities is likely to foster the growth of furniture market in India. Moreover, the availability of high speed internet networks and smart gadgets are boosting the e-retail sector in India. These advancements provide ease to customers to buy

furniture through online channels. In addition, the rising number of smartphone users across the country and the traction received by online shopping is further encouraging the furniture industry players to introduce their products through online mediums.

**Global exposure and influencer-based market:** The decision-making process in buying home furniture is largely influenced by the owner or the members of the family at large. For commercial establishments, consultations are done with interior designers and architects frequently, for selecting all aspects related to interiors, including furniture. Upwardly mobile Indians are increasingly buying foreign furniture with modern designs and are employing interior designers, to suggest/choose the right furniture. A major factor that has given a push to the growth of the imported furniture market is the increasing exposure of Indians to global trends and lifestyles. Such exposure, coupled with increased disposable incomes, has caused a growing number of urban middle class consumers to hire the services of interior decorators, for modelling their houses.

**Rising incomes:** The nominal per-capita net national income in FY2019-20 was estimated at ₹1,35,050, a rise of 6.8% compared to ₹ 1,26,406 during FY2018-19, driving consumption.

**Working population:** India's urban middle-class workforce stands at 27 million or 2% of its population, indicating large headroom of growth. This growth is likely to be catalysed by an increase in the number of working women and youth, strengthening consumer durable offtake growth.

**Rural market:** The rural population, accounting for 66% of India's population in FY2019-20, represents a large and relatively under-penetrated market, offering the potential of sustained consumption growth by kindling the aspiration and awareness of the mass through marketing tools like advertising and also broad-basing the distribution network.

**Demographic mix:** India is a young country with a median age of ~28 years recorded in FY2019-20 compared to the global average of 30 years. Almost half the country's population is under the age of 25 and two-thirds less than 35. India is expected to possess the world's largest workforce by 2027, with 64.9% of population in the economically productive ages of 15 to 64, strengthening consumption.

(Source: IBEF, Business Line, Market Watch, Hindu Business Line, Country Meters Info, Financial Express, Goldman Sachs, Ply Reporter, IMF)

## Favourable government policies

100% FDI policy for townships and settlements development project is attracting more foreign investors in the real estate sector which increase the quality of residential apartments.

The Department of Commerce under The Ministry of Commerce and Industry, Govt. of India, issued a notification to investigate the initiation of an anti-dumping duty on the imports of 'Veneered Engineered Wooden Flooring' originating in or exported from China, Malaysia, Indonesia and the European Union. Accordingly the authority initiated an investigation into the alleged dumping and consequent injury to the domestic industry.

## Company overview

Greenply Industries Limited is amongst the leading plywood manufacturers in India with a 26% share of the organised market. Greenply offers a wide range of panel products including plywood, block boards, decorative veneers, doors and film-faced plywood, among others.

## The plywood segment

Quality management and presenting the consumers with niche products has been the prerogative of Greenply. Its plywood uses plantation timber and goes through a stringent five-step preservative treatment, which makes it termite-free and borer-resistant. Its high dimensional stability makes it warp-free. Greenply is also particular about considerably lessening its carbon footprint as a result of which its products are eco-friendly and emissions-free, validating lower emissions of formaldehyde as per E1 formaldehyde emission levels. Greenply plywood products are fire-retardant and treated with fire-retardant chemicals.

Greenply was the pioneer manufacturer to cater to the high-end consumer market with premium brands like Green Club Plus Seven Hundred and Green Club 5 Hundred, among others. The Company's Fire

Retardant Plywood 'Green Defender' was certified by the Central Building Research Institute. Greenply is among the most widely-available plywood brands with a presence in 300 cities on the back of 1870 dealers/distributors and 50 physical and virtual branch offices across the country.

## Performance highlights, FY2019-20

Net sales were ₹1263.07 crore (₹1275.76 crore during FY2018-19) and EBITDA ₹133.93 crore (₹126.33 crore during FY2018-19), PAT was Rs.32.60 crore (Rs 61.29 crore during FY 2018-19).

## Outlook

Riding on the back of growing disposable incomes coupled with increasing nuclearisation of families, the housing sector is expected to grow in the foreseeable future, in turn, driving the organised furniture and plywood market. Growth in commercial spaces has also translated into a growth driver for the furniture sector. Plywood, one of the most preferred materials for interior infrastructure, is expected to post strong growth across the foreseeable future.

## PVC foam boards and sheets

Greenply markets PVC foam boards and sheets under the Green Ndure brand. Since its launch in FY2017-18, the brand has emerged as one of the preferred plastic panel products. The products are preferred owing to their sturdiness and mechanical strength, which increases with molecular weight on one hand and decreases with rising temperatures on the other. PVC boards are gaining popularity as they are lighter, cheaper and offer a host of performance advantages. PVC panels are easy-to-install, water-proof, and maintenance-free. Besides, they are available in a variety of textures, patterns and designs.

## Outlook

With residential construction growing, especially in the affordable segment, the demand for PVC Foam Boards and Sheets over the long term are expected to grow attractively.

## Greenply's face veneer facility in Gabon

Greenply invested in a face veneer manufacturing unit in Gabon through a wholly-owned step-down subsidiary (Greenply Gabon, SA). The Company became operational from July 2017 producing face veneers from locally sourced timber. The Company has a log peeling capacity of 96000 CBM per annum

- The Company strengthened capacity by 60,000 CBM during the year under review to take the total peeling capacity to 96,000 CBM per annum.
- The Gabon forests are operated under a sustainable forest management system, making it possible to draw out
- a stable 25-year management plan. Each tree permitted for felling is marked; only 4% of the total concession is permitted for felling in a year
- The Company engaged with professional loggers who supply logs to existing peeling plants (existing and expanded capacity)
- The plant is located inside a special economic zone, proximate to the port, equipped with integrated services, sustained through attractive tax incentives and enjoying easy access to the natural resources of Gabon

## Financial analysis

The financial statements of the Company were prepared in accordance with Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 as amended, notified under Section 133 of the Companies Act, 2013 and other relevant provisions of the Companies Act, 2013.

### Balance Sheet

- Net worth increased to ₹356.96 crore as on 31st March 2020 compared to ₹331.34 crore as on 31st March 2019.
- Total Borrowings stood at ₹143.09 crore compared as on 31st March 2020 against ₹143.64 crore as on 31st March 2019.
- Total Fixed Assets (WDV) as on 31st March 2020 stood at ₹203.92 crore compared to ₹174.30 crore as on 31st March 2019.

### Working capital management

- Current assets as on 31st March 2020 stood at ₹494.99 crore compared to ₹470.45 crore as on 31st March 2019.
- Inventories increased marginally from ₹141.61 crore as on 31st March 2019 to ₹143.80 crore as on 31st March 2020.
- Short-term loans and advances grew to ₹3.32 crore in FY2019-20 compared to ₹0.45 crore in FY2019-20
- Current liabilities (excluding borrowings) stood at ₹279.05 crore as on 31st March 2020 compared to ₹284.16 crore as on 31st March 2019.

### Profit and loss statement

- Net Sales decreased marginally by 1.00% from ₹1275.76 crore in FY2018-19 to ₹1263.07 crore in FY2019-20, largely owing to the loss of sales in March 2020 due to the onset of COVID 19.
- EBITDA increased to ₹133.93 crore in FY2019-20 compared to ₹126.33 crore in FY2018-19
- Profit after tax declined from ₹61.29 crore in FY2018-19 to ₹32.60 crore in FY2019-20 owing to the write off for an exceptional item of ₹49.97 crore in FY2019-20.
- EBITDA margin increased by 70 bps from 9.90% in FY2018-19 to 10.60% in FY2019-20.
- Total expenses for FY2019-20 stood at ₹1177.85 crore compared to ₹1197.44 crore in FY2018-19.
- Depreciation and amortisation stood at ₹21.07 crore in FY2019-20 compared to ₹18.72 crore in FY2018-19.

### Cash and bank balances

- Bank balances, other than cash and cash equivalents, increased from ₹0.26 crore as on 31st March 2019 to ₹0.31 crore as on 31st March 2020.
- Cash and cash equivalents declined from ₹17.84 crore as on 31st March 2019 to ₹9.35 crore as on 31st March 2020

## Performance highlights, FY2019-20 vis-a-vis FY2018-19

Parameters	FY2018-19	FY2019-20
Annual capacity (million square metres)	24.9	24.9
Production (million square metres)	34.69	35.31
Sales volume (million square metres)	57.13	56.41
Capacity utilisation (%)	139	142
Average realisations (₹ per square metre)	219	221

## Key numbers

Particulars	FY2019-20	FY2018-19
EBITDA/Turnover (%)	10.60%	9.9%
EBITDA/Net interest	7.95	8.53
Debt-equity ratio	0.40	0.43
Return on equity (%)	9.13%	18.50%
Book value per share (₹)	29.11	27.02
Inventory turnover (days)	42	41
Receivables cycle (days)	89	81
Earnings per share (₹)	2.66	5.00

## Risk management

The Company is subject to many risks and uncertainties that may affect its financial performance. The business, results of operations or financial conditions of the Company could be adversely affected by the risks described below. These are not the only risks the Company faces. Additional risks and uncertainties not presently known to the Company or considered immaterial may also impair its business and operations.

### Economic risk

A slowdown in the economy could reduce infrastructure investments, decelerating growth for the Company

#### Mitigation

Indian economy's growth slowed to 4.2% in FY2019-20. The number of measures taken by the government for economic revival and cyclical upturn could ensure sectoral robustness and consequent growth.

### Debt risk

Inability to secure capex funding at competitive rates could jeopardise the Company's growth plans.

#### Mitigation

The Company reduced its long-term debt by ₹11.70 crore during the financial year and improved its debt-equity ratio from 0.43 in FY2018-19 to 0.40 in FY2019-20. This not only enhanced the Company's credit rating but also allowed it to access loans at cheaper rates.

### Raw material risk

Significant increase in the cost or shortage of raw materials could affect operations

#### Mitigation strategy

Over the years, Greenply has established a reputation of being a cost-competitive player. Its plants are located within a ~100-kilometre radius of timber plantations, providing the Company with an uninterrupted supply of raw materials and lowering freight costs. The Company also engages on a regular basis with plantation workers and farmers, offering necessary subsidies, training and other benefits.

### Concentration risk

Concentration of operations in a particular location could lead to price under-cutting

#### Mitigation

Greenply has evolved into a pan-India-focused company. The Company's extensive distribution network is spread across 25 states in India, comprising > 1,870 dealers and 6,000-plus retailers, ensuring last-mile access.

## Health, Safety and Environment (HSE)

Greenply believes health, safety and environment (HSE) management goes a long way in maintaining an organisation's sustainability. The Company, thus, demonstrates environmental

and social responsibility at every step. It has a commitment to benefit communities – workforce, public, and environment. Its HSE objectives include complying with all applicable laws relevant

to the industry. The management believes in sharing responsibility with the employees at every level in conforming to existing laws.

## Health, safety and environment objectives

- Complying with all applicable laws and relevant industry standards of practice
- Elevating the health, safety and environmental aspects of equipment and services
- Making everyone responsible and accountable to HSE, right from entry-level employees to the management team

## Health and safety measures

- The health and safety of each individual working within the plant area is a prime concern of the management. Therefore, appropriate precautions are taken in the area in accordance with safety norms.
- The entire electrical panel's operation area is provided with rubber mats. This provides safety against electrical shock during operation and maintenance efforts
- The rotating equipment is provided with safety fence and motor guards for human safety. All the hot surface pipes and equipment are provided with appropriate insulation for safety to the human body
- Appropriate work platforms and ladders are provided for operation and maintenance of the components located at heights
- Precautionary signboards are displayed at specific locations for awareness of the operation staff. Earplugs, safety goggles, shoes, helmets, gloves, masks and safety gadgets (PPE), among others, are provided to the staff
- First-aid boxes are made available across the plant for treatment of minor injuries. An ambulance is also available round-the-clock within the plant for the transfer of an injured worker in case of an emergency.

## Human resources

Greenply's prudent human resource practices helped reinforce its sectoral leadership. The Company invested in formal and informal training coupled with on-the-job training. Greenply reinforced its employee

engagement by providing an amicable workplace, offering challenging responsibilities and maintaining an ongoing dialogue. The Company enjoyed one of the highest employee retention rates in the industry and continues to

work on leadership development to drive organisational growth. As on 31st March 2020, the Company's employee base stood at 2,365.

## Internal control systems and their adequacy

The Company has in place strong internal control procedures commensurate with its size and operations. The Company believes that safeguarding of assets and business efficiency can be prolonged by exercising adequate internal controls and standardising operational processes. The internal

control and risk management system is structured and applied in accordance with the principles and criteria established in the corporate governance code of the organisation. It is an integral part of the general organisational structure of the Company and Group and

involves a range of personnel who act in a coordinated manner while executing their respective responsibilities. The Board of Directors offers its guidance and strategic supervision to the Executive Directors and management, monitoring and support committees.