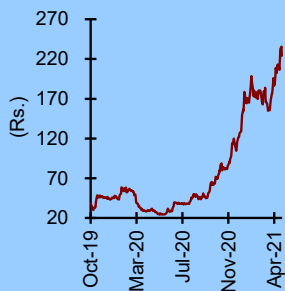
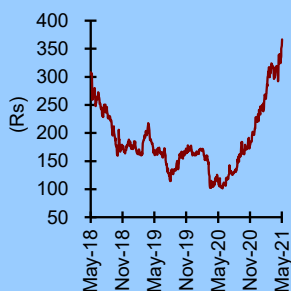


Thematic

Greenpanel Industries (BUY)



Century Plywood (BUY)



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INDIA

MDF Industry

Countervailing duty on MDF recommended; imports may get hit structurally

In its final findings w.r.t. case no. 06/2019, the Directorate General of Trade Remedies (DGTR) on 3rd May'21 ([Link](#)) recommended countervailing duty (CVD) on imports of MDF into India and originating in or exported from Malaysia, Thailand, Indonesia, Vietnam and Sri Lanka for a period of five years. The same needs to be ratified by the Union finance ministry. The recommended CVD structure (if ratified) is likely to negate the entire pricing differential (domestic vs imports) of 8-10% in thick MDF (70% of MDF market) and prune down the differential to 8-10% (from 20-25% earlier) in thin MDF (30% of market). This we believe would enable south-based MDF manufacturers to replace major MDF imports (on structural basis), which are currently estimated at 25-30% of the overall MDF market in India. Key beneficiaries: Greenpanel Industries, and Rushil Décor.

- ▶ **CVD on MDF segment recommended for next five years.** The DGTR on 3rd May'21 recommended countervailing duty (CVD) on imports of MDF originating in or exported from Malaysia, Thailand, Indonesia, Vietnam and Sri Lanka for a period of five years. The same needs to be ratified by the Union finance ministry. The ratification is expected to take at least 2-3 months. The investigation for CVD was started in Nov'19 and the application was initiated by Greenply Industries, Rushil Décor, and Century Plyboards.
- ▶ **Quantum of CVD recommended is a positive surprise.** The definitive CVD of an amount equivalent to the difference between the quantum of CVD calculated at the rate mentioned and ADD payable, if any, is recommended to be imposed from the date of notification to be issued in this regard by the Union government on all imports of MDF. The quantum of CVD recommended ranges at 8.3%-27.5% for Thailand, 10.5%-18.1% for Malaysia, 12.4%-19.1% for Vietnam, 13.7%-15.8% for Indonesia, and 12.4% for Sri Lanka.
- ▶ **The CVD would be in addition to ADD levied on all plain MDF from the subject countries, which would make imports further unviable.** The DGTR recently recommended ADD on Thin MDF from Malaysia, Indonesia, Thailand and Vietnam on 20th Apr'21 for the next five years (yet to be ratified by Union finance ministry). The DGTR also recommended to extend ADD on Thick MDF (6mm or above) for further five years in Jan'21 from Malaysia, Thailand and Sri Lanka. We believe CVD and ADD together would make imports unviable going forward. It may be noted that the ADD on imports of Thick MDF from Vietnam and Indonesia (vide notification 34/2016 dated Jul'16) would expire in Jul'21 and would come up for a review.
- ▶ **Robust MDF demand sustains on growing market for modular furniture.** Post covid, demand for MDF has seen sharp revival largely driven by: a) increasing preference for modular furniture vs customised carpentry; and b) India gradually becoming a manufacturing hub for modular furniture replacing China. Besides the strong OEM demand, we expect increasing acceptance and awareness of MDF for renovation/refurbishment projects to drive robust demand over the near to medium term.
- ▶ **MDF margins for south-based MDF manufacturers are likely to remain firm.** The recommended CVD structure (if ratified) is likely to negate the entire pricing differential (domestic vs imports) of 8-10%-thick MDF (70% of MDF market) and prune down the differential to 8-10% (from 20-25% earlier) in thin MDF (30% of market) segment. This we believe would enable south-based MDF manufacturers to replace major MDF imports (on structural basis), which are currently estimated at 25-30% of overall MDF market in India. We expect their margins to remain firm driven by operating leverage and firm pricing. **Key beneficiaries: Greenpanel Industries, and Rushil Décor.**

Table 1: Duty structure of CVD and ADD recommended

Country	All types of MDF for 5 years	On thin MDF for 5 years	On thick MDF for 5 years
	CVD amount as % of CIF value	ADD is capped amount in US\$/CBM	ADD is definitive duty in US\$/CBM
Thailand	8.3-27.5	258.42	45.27
Malaysia	10.5-18.1	258.42	36.1
Vietnam	12.4-19.1	255.35	-
Indonesia	13.7-15.8	227.47-258.42	-
Sri Lanka	12.4	-	26.49

Note: ADD on Thick MDF from Vietnam and Indonesia is already present and is due to expire in Jul'21 and will be up for a review for extension.

Source: DGTR, Ministry of commerce & Industry

Table 2: Calculation of CVD and ADD together on MDF imports

Assuming importing Thin MDF (less than 6mm) from Thailand	In US\$/CBM
CIF value of imports	200.0
Add: CVD assuming lowest rate imports at 8.3%	16.6
Total imports value including CVD/Landed value for ADD	216.6
Capped amount for Thin MDF ADD if imported from Thailand	258.4
ADD will be difference b/w landed value and capped amount	41.8
Total CVD and ADD on US\$200 Thin MDF imported from Thailand	58.4
% increase in imported price	29.2%

Source: DGTR, Ministry of Commerce and Industry and I-Sec Research

Table 3: Total imports from subject countries and rest of the world for the investigation

Import Volume	Unit	2015-16	2016-17	2017-18	2018-19
Imports from- Subject Country	CBM	1,79,805	2,19,031	3,44,199	2,95,472
Indonesia	CBM	47,051	37,905	35,953	36,343
Malaysia	CBM	23,869	46,049	53,447	73,707
Sri Lanka	CBM	23,263	17,247	20,590	13,854
Thailand	CBM	38,764	27,208	70,922	48,352
Vietnam	CBM	46,859	90,622	1,63,287	1,23,216
Imports from other countries	CBM	40,015	38,584	40,055	35,855
Total Import Volume	CBM	2,19,820	2,57,615	3,84,254	3,31,327

Source: DGTR, Ministry of Commerce and Industry

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