



“Greenlam Industries Limited Q2 FY `18 Earnings
Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY '18 Earnings Conference Call of Greenlam Industries Limited. This conference call 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 the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurabh Mittal – Managing Director and Chief Executive Officer, Greenlam Industries Limited. Thank you and over to you, Mr. Mittal.

Saurabh Mittal: Good Evening Ladies and Gentlemen and a very warm welcome to all of you. On the call, I am joined by Ashok Sharma – CFO; Samarth Agarwal – GM-Finance; and SGA, our investor relations advisors. The results and presentation are available on the exchanges and on our company's website and I hope you - had a chance to look at it. The building materials sector has witnessed some sort of a consolidation on the back of new regulations in the form of RERA and GST implementation. In rural markets and Tier-2 cities, consumers have access as compared to urban markets. These regulations though would increase consumer confidence and improve market sentiments, but this will be a gradual process. Our performance in the backdrop of these changes were satisfactory, our volumes grew 8.8% in the core laminate business in Quarter-2 FY '18 of which 12.8% volume growth was in the domestic market and 5.1% in the international market.

We have also been able to maintain our margins due to better cost management and also due to lower losses in the new products. We have done well in the domestic market in terms of volume and value for both the quarters of this financial year. Our top line has been affected by decrease in average realization, which is due to a negative impact of GST on sales from the Nalagarh factory which was earlier in the excise-free zone. This has impacted both the domestic and the exports figure for Q2 FY '18. For Q2 FY '18, exports degrew by 14% which was due to currency appreciation for about 4% to 5%, negative impact of GST on exports from Nalagarh and lower sales by our subsidiaries. Our flagship brand, Greenlam Laminates, is on top of consumer memory and has witnessed good traction. Performance of the veneer business has been flattish as compared to same period of last year but with better margins. The doors and floors segments are yet to alleviate and hence the margins do vary. Losses from these two segments were small compared to H1 FY '17. We expect utilization levels to improve gradually with high acceptance of our products and better realistic scenario in the country especially the organized.

We expect the GST implementation will benefit us with a more efficient logistics and also with reduced price gap between the organized and unorganized players, which will make our products more competitive and profitable in the foreseeable future. Credible players like us are likely to gain more ground as we expect unorganized players to lose ground. I would now like to hand

over the line to our CFO, Ashok Sharma, to take you through the finance and operational highlights of the company post which we will take your questions and be happy to answer most of your queries. Over to you, Ashok.

Ashok Sharma:

Good Evening friends. I will take you through the financial performance of the company. For the Quarter-2 FY '18 on a consol basis, revenue for the quarter degrew by 0.8% to 275.6 crores compared to 277.8 crores in same quarter previous year. Gross margin was at 48.6% as against 46.6% in Q2 FY '17. EBITDA for the quarter was at 38.2 crores with a growth of 8.2%. EBITDA margin was at 13.9% as against 12.7% in Q2 FY '17. PAT for the quarter was at 16 crores, a growth of 15.8%. Our domestic sales increased by 10.8% to Rs. 164 and exports degrew by 14.1% to 111 crores. Financial performance for the H1 FY '18 revenue on consol basis grew by 2.3% to 553 crores. EBITDA for the year was at 71 crores as against 65.4 crores in H1 FY '17. EBITDA margin was at 12.8% as against 12.1% in previous year same quarter. PAT grew by 31% to 29.4 crores. Total debt stood at 295 crores, which includes a short-term debt of Rs. 155 crores.

Now, I will move onto segmental performance. Laminate and allied product which constitutes around 87% of our Q2 and H1 FY '18 sales, laminate and allied segment recorded a sales of 240.3 crores, degrew by around 2%. Sales volume for the quarter were at 3.55 million sheets, a growth of 8.8%. Production volume were at 3.53 million sheets with a growth of 4% and utilization level of 101%. Our average realization for the quarter was at 667 per sheet against 714 previous year same quarter. International business contributed Rs. 109.5 Cr that is 39% of the laminate revenue.

Moving onto financial performance for the H1 FY '18, sales on consol basis grew by 2.2% to 553.3 crores with volume sales growth of 7% to 6.84 million sheets. EBITDA margin expanded by 70 points to 13%. Production increased by 10% to 7.1 million sheets with a capacity utilization of 106%. Average realization was at 689 per sheet as against 709 per sheet in H1 FY '17. Moving on to decorative veneers and allied product segment which form 13% of this quarter and H1 FY '18 sales, for the quarter our sales was at 35.3 crores as against 32.7 crores in Quarter-2 last year. EBITDA stood at 3.5 crores with a margin of 10%. For the half year, sales grew by 8.9% to 70.1 crores as against 64.4 last half year. In the veneer segment for the Quarter-2 FY '18, capacity utilization stood at 37% while our volume sales were 0.41 million square meter against 0.36 million square meter in Quarter-2 last year. Average realization fell by 5.7% to Rs. 691 per square meter. For the half-year, utilization stood at 33% while the sales volume was 0.72 million square meter. Engineered wood flooring under the brand, Mikasa, has performed well. We have clocked a sales of 11.6 crores in this half year as against 7.5 crores in the previous year half-year, a growth of around 55%. Engineered door segment is also gaining traction and clocked a sale of 6.26 crores this half year as against 4.21 crores last year, a growth of 48%. This is all from our side. I would now like to open the floor for question and answers. Thank you.

- Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Saurabh Poddar from Lucky Investment Managers. Please go ahead.
- Saurabh Poddar:** Firstly, I wanted to ask you what percentage of raw material does Kraft paper make up?
- Ashok Sharma:** Of the total raw material cost, around 60% to 65% is paper and the rest is chemicals. Of the paper, Kraft is around 55%.
- Saurabh Poddar:** What is the trend in Kraft prices and going forward do you see it impacting margins and profitability if the prices are moving up that way?
- Ashok Sharma:** In the past three to four months, we have seen quite stable prices of Kraft paper. There was some traction in the Quarter-4 of last year, but over the past three to four months, we are seeing almost stable prices.
- Saurabh Poddar:** Sir, despite the factors you already mentioned, is there anything that impacted the exports because they have declined by 12%?
- Ashok Sharma:** As we mentioned, there are several reasons which constituted decline of 12%. First and foremost is around 4% due to currency appreciation. Then our Nalagarh unit which was under excise-free zone previously, on this the export incentive which the provisioning has come down because now it is available for the GST input benefit, so that has come down by another 4% and then since we give the numbers on a consol basis in our subsidiary the sales was a bit low.
- Saurabh Poddar:** Sir, there has been a growth in domestic business, what are the main growth drivers is it post-GST channel being refilled or are there any you can see some significant demand growth in terms of laminates and other business etc.?
- Saurabh Mittal:** I still think that the restocking has not happened until date and I think it is our own push to do more than domestic space expand the market penetration, expand the business into segments, we were not doing so well earlier. Over the last couple of years, we have kind of not done great in domestic space, so we think we are creating demand and pushing to build the domestic sales. Market itself is challenging in the domestic space and we are talking at least in our business I do not think it has happened as yet.
- Moderator:** Thank you so much. We have the next question from the line of Chandra G. from JM Financial. Please go ahead.
- Chandra G.:** Just wanted to know the quantum of this GST impact which we had in Nalagarh facility?
- Ashok Sharma:** This will be approximately around 9 crores.

Chandra G.: Sir, if my understanding is correct, I think this will be reversible because of that notification which came in October, the refund of CGST for excise-free zones, is it right?

Ashok Sharma: This is not related to that, let me explain it to you. Previously, we were paying excise duty on our input raw material which was forming part of the cost and by the same amount it was included in the sales. Now, the same amount it is not the part of the raw material, so by these 9 crores our sales has come down and similar amount by our raw material has also come down, so it will not have impact on the bottom line, but it will impact on the top line and what you are saying that is 29% that will be on the 58% of the CGST what you said correctly, which will be on the duty which has been paid to the Government, so any cash CGST which is being paid to the Government, on that we will get 58%.

Chandra G.: That provisioning for this because this notification came in October, so is there any provisioning on the part of CGST refunds, which we have to claim or anything of that sort is there?

Ashok Sharma: As of now, we have not done the provisioning because there is no payment in cash which has been made because till now we were paying even the taxes on the export input also, so we still have the credit balance in our IGST and CGST account, so wherein this 58% of CGST you will get only if you make any cash payments so as and when we make the cash payments, we will make the provision.

Chandra G.: Sir, on the margins front for domestic business which have improved, you just mentioned that we have taken cost improvement measures, can you please highlight just to understand in better way what are these measures and how are they contributing?

Saurabh Mittal: We cannot put specific line item on this, but just general overall manpower cost, marketing cost, the logistics cost, fixed cost, warehousing, offices, so overall in the business there has been better cost management and that is why if you see the QoQ expenses will probably have a small reduction in the other expenses vis-a-vis the same period last year, so these activity is across every part of the value chain.

Chandra G.: On this profitability front for the subsidiaries, last quarter I think you mentioned that there are some problems with the subsidiary profitability. The margins have expanded QoQ for laminate, so is it to do with that also, subsidiaries gaining good margin traction or that is steady state?

Saurabh Mittal: In Q2 FY '18, the margin of the subsidiary actually has been lower in the same period last year so I would think it is positive, but the margin has been lower because sales have been lower in the subsidiaries most of the same period last year.

Ashok Sharma: As a percentage, margin has gone up as we have said sales was lower in this H1. Due to that the overall profitability is lower than the previous year, but as soon as we are able to build the sales probably this will also go up.

Moderator: Thank you. We have the next question from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Sir, this is more or less pertaining to exports market, could you actually, we have read the reasoning that you have given in the presentation mainly related to rupee appreciation, just wanted to know is the competitive intensity in the exports market increased or is there any other country which is playing a major role in the exports market right now?

Saurabh Mittal: If you know the exports numbers for Q2, in dollar terms we have degrown by slightly under 1% and in H1 we have degrown by slightly under 2%, so really the large chunk of degrowth which is being visible is due to the currency appreciation, the GST implementation which impacted the plant in the excise-free zone, and yes, obviously there is competition in the marketplace. If you look at the volumes in Quarter-2, the volumes of exports also have been the highest in a particular quarter, so really I think realization has slipped a bit because sale in subsidiaries have been a bit lower. One of our category of products, the sales have been lower for that, so volume in exports Q2 versus Q2 last year has grown by 5.1%, dollar terms, we have degrown by slightly under 1%, so the big chunk of differences is visible more because of currency and the accounting matters due to the GST.

Sneha Talreja: In the exports market, volumes have been 5% up?

Saurabh Mittal: Yes, 5% up in the same period, that is right.

Sneha Talreja: Is that a normal growth that we generally see and what is the future growth rate that we can see in the exports market, and how has been the export market growth rate over the years?

Saurabh Mittal: I can say that this year earlier we were talking about 8% to 10% kind of export growth, now with the GST and currency appreciation it is kind of, if you do the same math, it has come down to the nearly 2% to 3% of our growth, so we are trying to pull up the business, so let us see how Q3, Q4 goes, but I think the way it looks like we should be able to do 4% to 5% kind of growth in the second half of the financial year, and over the years last one or two years, the growth has been not very too high, but we will get a five or six years or 15% to 20% kind of a growth here.

Sneha Talreja: Sir, secondly just wanted to know the market scenario post GST, how has the unorganized sector doing after the GST because we were speaking to plywood players and also there we have not seen any substantial impact, it is a reverse shift happening, since our rate is more favorable just wanted to know your view about the market share gains?

Saurabh Mittal: Like we said earlier in the con call that the price gap has narrowed between us and the unorganized players, in some markets the gap is lower and in some markets the gap still exists for laminate especially because GST is at 18% and all of the raw materials is subject to input tax credit, the gap between what one is paying out and the credit one takes up is small, so some price

gap have narrowed across the country. In general, the demand is challenging, but if you talk of the unorganized story, my response is that the price gaps have narrowed.

Moderator: Thank you. We have the next question from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Sir, I would like to know what would be the CAPEX plans for this year, FY '18, and subsequently in FY '19 and if you could also elaborate how much of that would be towards veneer and laminates, please?

Ashok Sharma: Aditya, this year normally our general CAPEX is around 20 to 25 crores and this year we have done an expansion of laminate unit in Nalagarh, which will also again cost 25 to 28 crores, so this year we are expecting somewhere in between 45 crores to 50 crores CAPEX, and normally the veneer does not require much of the CAPEX, so majority of this will be in the laminate and allied segments, and in terms of future year also our general maintenance CAPEX is around 20 to 25 crores.

Aditya Bagul: Sir, could you also explain a little bit on the utilization levels, I am sorry if I missed that comment earlier?

Ashok Sharma: Utilization level in terms of laminate on the extended capacity, we have expanded the capacity in the Q1 of this year only. On the expanded capacity of 14 million sheets and utilisation is 101%, veneer is around 36%.

Aditya Bagul: Sir, with regard to GST, can you share some qualitative comments on what is the change in the working capital situation at our distributor level, I mean you talked a little on the restocking not happened as yet, could you share a little more on this please?

Saurabh Mittal: Working capital of distributors, are you asking about the collections into the distributor from the market?

Aditya Bagul: How is that, has the working capital cycle at your distributor level elongated further or?

Saurabh Mittal: I do not think there is any material change vis-a-vis what was there in Q1 of last year, but if you look at our debtor cycle, our debtor cycle versus Q1 has increased by two days and versus last year same period Q2 has come down by 8 days. While our inventories have gone up that is primarily because sales have been lower than what we expected, so at the distributors end vis-a-vis Q1 last year, distributors normally always say that markets are bad and collections are bad, so it is not something new for commenting, but we do keep hearing that collections are poor from the market and there is no cash in the market, people are not spending or they are spending and not willing to pay, etc., but if you look at the data mathematically two days of debtors have

increased for us vis-a-vis Q1 post GST, I think if you still go by the data what people are seeing earlier.

Aditya Bagul: Sir, also if you could just share one bookkeeping question, what do you think would be the debt levels that we would have by the end of this year?

Ashok Sharma: The debt level as of now is around 295 crores and since we have CAPEX program as I mentioned this year is around 45 to 50 crores, we expect debt level to come down by around 25 crores.

Aditya Bagul: You would end the year by about 280 crores?

Ashok Sharma: Around 270.

Saurabh Mittal: It depends on how business goes for the next two quarters because what we are looking at, we do not require working capital if this really does well, typically with 9 crores of depreciation every quarter, so that is really 18 crores of depreciation for H2 which is a little bit plus or minus 2 to 3 crores should make up for CAPEX expenditure, so if business does well we do not expect working capital cycle to worsen or we do not need to put in more money into inventory or debtors etc. If business does well, this could be pretty in the profitability.

Moderator: Thank you. We have the next question from the line of Kritika Subramanyam from IIFL. Please go ahead.

Kritika Subramanyam: Sir, could you please give us the absolute volumes for laminates and exports as well as the domestic market for this quarter?

Ashok Sharma: In terms of domestic, it was 1.77 million and export was 1.78 million, total was 3.55 million.

Kritika Subramanyam: Sir, would you have any idea on how the industry volume growth has been in this quarter for laminates in the domestic as well as in the export market because, if I may say so one of your peers reported their numbers recently and their volume growth in laminates was really healthy, so I just wanted to understand in terms of traction, how are you all seeing it in the domestic market as well as the export market?

Saurabh Mittal: You want to know what the industry has grown in Quarter-2, is that what your question is?

Kritika Subramanyam: Yes.

Saurabh Mittal: I would not know that, it would be a guess, I could not put a figure to it right now. What did you say about competition?

- Kritika Subramanyam:** Sir, thing is Century reported their numbers recently and I agree that they have a very low base as opposed to you and you are the market leader, but in terms of volume growth it has been pretty robust from their end, so I just wanted to understand from an industry perspective?
- Saurabh Mittal:** What I note is if you see the competition numbers, H1 in domestic volume growth for Centuryply was actually minus 2%, overall there was a 5% volume growth in H1 versus H1.
- Kritika Subramanyam:** So 5% volume growth for the industry in H1?
- Saurabh Mittal:** You talk about competition, the data we have is that there is volume growth in H1 versus H1 laminate was 5%, there were (-2%) in domestic business-. so I would not know the industry, if that is the question. I think you could figure what industry grow in Quarter-2, is that what your question is?
- Kritika Subramanyam:** Yes.
- Saurabh Mittal:** I could not say that.
- Moderator:** Thank you. We have the next question from the line of Chandra G. from JM Financial. Please go ahead.
- Chandra G.:** Sir, just on veneer business so it was struggling since last few quarters and there is a positive growth now, so I just wanted to understand what is your view on this side, guidance for the year and going forward?
- Saurabh Mittal:** We are not struggling, if you look at sales of veneer the main veneer panel business is flattish, rather we are minus 1%, margins are better but top line is still flattish and the flooring & door business is too small 40% to 50% volume and value growth is not so meaningful. Losses have reduced there, so I think we should be better than H1 because we have disruptions in the domestic business in June and July and the entire veneer and allied business is largely domestic business and very small portion of it is exports, so we think H2 should be better, typically they have 45 to 55 kind of ratio, H1 is 45%, sales in H2 is 55% sales, so I think we should be better in the second half of the year. Sales if top line goes up, we should look at better profitability or lower losses.
- Chandra G.:** Sir, what I can see, so basically there is a realization drop for veneer business this quarter, the volume growth has been pretty strong at 14% compared to previous quarter?
- Saurabh Mittal:** Yes, that is quarterly quarter, if you look at H1 and H1 and value sales, I was looking at value sales of minus 1%. If you look at H1 volume it is about 2% positive and value is minus 0.4%, it is really flattish you could say.

- Chandra G.:** Any specific reason Sir, for this realization drop for the quarter?
- Saurabh Mittal:** It probably just product mix which could have altered this because, right now with residential sales being a bit low, commercial sales are higher. Commercial sales normally are project business which have low value addition and they are more standard species for commercial spaces, probably it is one of those reasons there.
- Chandra G.:** Sir, if you can just guide us for this laminates business as well for FY '18 and FY '19 how do you see domestic part of it?
- Saurabh Mittal:** I have to give you FY '19 figure, but if you look at domestic only H1 domestic laminates value growth is about 18% and quantity is about slightly over 13.5%, so I think we should be able to maintain the domestic growth in the similar range over the next two quarters and FY '19 I really do not see what the market does because we have capacity and we are still not running on full capacity, so the market really improves we should be able to service the market,
- Moderator:** Thank you. We have the next question from the line of Varun Arora from Karma Capital. Please go ahead.
- Varun Arora:** My question is regarding to the comment which you made earlier on restocking, you mentioned that restocking has not happened to a full extent, but your domestic volume growth is quite decent, so if you could just elaborate on that comment?
- Saurabh Mittal:** When we say restocking it is not happening, there was reasonably high amount of again that is like a dichotomy in the numbers that has grown in Q1 and Q2 that does not mean that there was no destocking in Q1 also, so the existing channel partners have driven stocks. In some markets we have grown, there have been additional new distributors, new dealers, and new product categories. There is a new launch of the flagship brand, so the comment was that the domestic growth could have been better if the restocking would have happened, so if you look at April and May, typically our domestic sales were running 30% plus. We had a fall in June, bit of fall in July. September particularly that one particular month with a high domestic sales, so we still think that we can do better in the domestic market, the numbers would have been better if the restocking would have happened.
- Varun Arora:** My second question is regarding your engineered wood flooring and doors, so there I see that losses are lower than last year, so here are we on track to breakeven at the EBITDA level by the end of the year?
- Saurabh Mittal:** That is what we had said earlier that our first step is to look at EBITDA breakeven hopefully by this year, so again it really depends on how the market behaves and what we do and if things go well, we should be very close to that kind of a situation because if you look at the flooring also we have improved, the realizations has also gone up because gradually the channel is being

added, the retail sales are also increasing which is at a higher price point, so if the markets do well we should be close to EBITDA breakeven within this year or the last quarter of this year.

Moderator: Thank you. We have the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Most of my questions have been answered, just two follow ups essentially, firstly on the volume you mentioned that you are almost running at 100% utilization on your laminate capacity, so how are we looking at growth over the next 12 to 18 months, is there anything which we are looking in terms of additional capacity addition in this segment, and secondly, some comment on the competitive environment because we clearly see that there is a competition who is getting more aggressive within this space and they have been able to manage to get decent scale, so are you seeing any market share pressure or seeing any price competition in the market, any comments on that?

Saurabh Mittal: First on the capacity utilization, right now in Q2 we were at 101% utilization. Typically, with the way our business is programmed, we can go up to 115% to 120% utilization levels. There is an opportunity to improve utilization by another 15% to 20%. Number two, we can scale up, we have said this earlier from 14 million capacity to nearly 20 million capacity annually at both our plants with new production lines. If demand does pickup in the period of about nine months, we can add another 2 million capacity if demand does pick up, so that will take care of the growth. Your next question was about competition and competitive pressure etc. so yes, competition is there, there is high competition in the marketplace. Having said that, if you look at the overall number, I do not know which company you are referring to, but yes, there is competition and if you look at the domestic growth that is typically more in the domestic space than the export market currently, so if it is a domestic growth in H1 versus competition, internal quantity and realization, they have been higher with the larger base, so we are working hard to build the domestic business with a better growth rate.

Gunjan Prithyani: Do you see any kind of aggressive price competition in the market given that the demand environment clearly is not that supportive, but at the same time?

Saurabh Mittal: It is always been so, there is nothing new on that, so laminates typically capacity is more and demand in the market, so the industry utilization is not at high in 100% or even it is probably in the band of 60% of 65% may be even low also, so it is not something new which is just emotional market, so there has always been aggressive pricing by various companies.

Gunjan Prithyani: This capacity addition which you mentioned, what is the typical lead time and what kind of CAPEX does it require let us say if you have to go from 14 to 16?

Saurabh Mittal: We said that typically that would be nine months depending on the circumstances, CAPEX like the recent one we did at the Nalagarh factory of 2 million probably spent slightly under 30 crores

about 28 to 30 crores kind of a spend, so it really depends on what equipments do you have, so it could be anything between 20 to 30 crores can go up to maybe 35 to 40 crores depending on the equipments you need.

Moderator: Thank you. We have the next question from the line of Navin Jain from Florintree Advisors. Please go ahead.

Navin Jain: Sir, my question is a broader question on our engineered doors and floors business, do you think this business can scale up to something like 100 crores in may be three year kind of timeframe or will it take much longer?

Saurabh Mittal: For sure it can, I guess it will be targeted, yes it can. On a full capacity floor can be 200 to 225 crores kind of a number, Doors can be in the band of 75 to 80, 100 crores kind of a number, so yes, it can.

Navin Jain: Do you see enough demand because, it is a very niche product and what is?

Saurabh Mittal: If you look at the market, the flooring market in the country is nearly 2 million meters square, we have put a 1 million meter square plant, but the only concern is the market, so there is demand, but demand is challenging because of real estate being slow and tractions being lower than what it should be, but I think if you are talking about three-year horizon I think we should be able to do somewhat more than that.

Moderator: Thank you. We have the next question from the line of Arson Warde from IDFC Securities. Please go ahead.

Arson Warde: How much of your revenue is derived from the project side and how much from the retail level, a rough sense would be helpful?

Saurabh Mittal: Tough to give you exact number, so I am sure whatever you are saying is from domestic market, probably the 30% to 35% project and may be 60% to 65% retail.

Arson Warde: Although project is kind of on the lower side that would be better for you guys, but any expectations on the real estate revival going forward like how much time would you think it would take from here on and any pockets of India that are doing better?

Saurabh Mittal: I would not know how much time it will take to revive and I cannot really mention any specific one pocket or two pocket of the market, but we think that there is opportunity across the country, there is more to be done in distribution, there is more to be done with the OEMs, there is more to be done with the projects, specifically say market is growing well in these parts.

Arson Warde: Finally, how much is the size of the unorganized industry laminates in India out of 100?

- Ashok Sharma:** Around 1300 to 1400 crore each year.
- Arson Warde:** That is the size of the unorganized space right?
- Saurabh Mittal:** Yes.
- Moderator:** Thank you. We have the next question from the line of Radhakrishnan from IIFL. Please go ahead.
- Radhakrishnan:** Just trying to understand you told this restocking is not happening much, any specific reasons channel partners are telling why restocking is not happening, is that because the ground level demand is not proper or maybe because of GST, sorry to bring in, your competitors told for ply it is not happening because they are all having expectation that the GST rate will come down, so here I do not think any such specific reason is there, any reason channel partners are telling why restocking demand is not happening?
- Saurabh Mittal:** I do not think there is one particular reason what they are seeing. Number two, it is really difficult for us also to map direct dealers, secondary dealers, exactly check their stock, how much they have restocked is also an estimate we have Mr. Radhakrishnan. Thirdly, probably the services to the market has improved with our warehousing supply chain becoming more efficient, I do not know there are some distributors and dealers do not feel that they can manage with less, so really I cannot put one particular reason why this is not happening, we are also trying to find that out and our endeavour is to stock up the distributors to a pre-GST level without worsening our credit date, so I think it is a delicate balance which we want to achieve and will have to see how it goes, so if you are asking me one particular reason I do not think I have that and really humanly checking the inventory of all the distributors, secondary dealers, how much now because we had done this exercise once in July, what are the stock and they will do this probably in this month and exactly see how much more inventory should go into the distributors and to the dealers.
- Radhakrishnan:** How this quarter is panning, how October has gone, any idea?
- Saurabh Mittal:** Surely, we have an idea, so October has been quite flattish for us, which is not abnormal because Diwali holidays and factories are shut only in this period for us for the year, so it has been quite flattish.
- Moderator:** Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** How much capital has been deployed in engineered floors and in doors?
- Ashok Sharma:** The floors and doors is 130 crores.

- Dheeresh Pathak:** What is the breakup?
- Ashok Sharma:** Breakup in terms of?
- Dheeresh Pathak:** How much is employed in engineered wood floors and how much in doors?
- Ashok Sharma:** Around 111 crores in floors and around 19 crores in doors.
- Moderator:** Thank you. We have the next question from the line of Achal from JM Financial. Please go ahead.
- Achal:** I think broadly my questions are answered, just wanted to get some perspective, you have been indicating the demand has been reasonably low, how do we look at the drivers, what are the key lead drivers in your view which one should watch out for, is it the registration, what is your sense what should drive the industry growth from here on?
- Saurabh Mittal:** In terms of what is being monitored or what you should look at?
- Achal:** What you monitor and from we can also look at?
- Saurabh Mittal:** Typically, we monitor second week sales on a regular basis of all the main markets, everyday sales from our distributors, project enquiries, quotations going out to customers, samples being shifted to architects and to projects, addition of new OEMs, kitchen's modular furniture, wardrobe producers, so this is what we typically we mean...
- Achal:** That is very useful Sir, have you seen any pickup on these parameters or you think it is still volatile?
- Saurabh Mittal:** Like I said, our numbers in domestic have grown. but like I was saying our plan is to grow in domestic was more and couple of months we have had even (+30%) growth in April-May even September was a very good month for us, so overall for the energy we are putting into the business for the new distribution points, new products which we launched over the last year, even last quarter we had a new launch of the flagship brand, Greenlam, new collections launch. We think this should be better, we should have done better and the general feedback we get from the market is that things are slow and project business is still going on and customers to fall the low, so we do not have like an economic indicator to check the industry, these are just the feedback we get from our customers and from our channel partner from our sales teams.
- Moderator:** Thank you. We have the next question from the line of Ajay Thakur from Alder Capital. Please go ahead.

Ajay Thakur: This is pertaining to the margin profile for the laminate business, I am just trying to understand this that when I compare our margin profile from an EBITDA angle and I look at it vis-a-vis one of the largest unlisted competitors that you have, there is a significant difference which seems to be theirs as much higher than ours, and I am just trying to understand, how do we reconcile this, is it because of mix or is it because of geographical sort of a difference that we have versus theirs and the second part which I would like to understand is in the laminate business given the fact that how we are progressing in terms of our business, where should we actually look at this margin profile, let us say three years out from now?

Saurabh Mittal: When you compare us with this unlisted company, you have to appreciate they are a 50-year old company, so their plants are older, their product mix and distribution is stable. Their model of business in exports is different from us, so if you look at our international business in the subsidiaries we are still not up to the level of margins we should be getting because, they are most of the new businesses, they started breaking even only last year, last year was the first year when our subsidiaries kind of broke even, so our model in the international market has been to build a brand and build a long-term business model, but the competition has been more direct to the customer and they have had more years in the business. Secondly, the mix in the domestic market probably better than us and their factory, their whole model is settled and if you look at our company, the Nalagarh plant is seven to eight years old. So I think it is a mix of timing, model of business, numbers of years in business, it is a bit different from that perspective. We should take a slightly more long-term view, you said two to three years. I think we should be at 17% to 18% kind of EBITDA margin on the laminates over a longer period here. Currently, if you look at the laminates business Q2, we were at about EBITDA margin of about 14.4%, H1 we were at about 13.5%. If you look at the capital employed of our competition, I think that is also a measure you must look at, the working capital cycle and the remaining capital brought on the laminates business. Despite this, we should probably are not too different lam on lam here because they have more products and more businesses, so if you look at only our laminates business versus their laminate business at the ROCE level, you would see that not much of the difference even today.

Ajay Thakur: Just had one follow up question from inside perspective when I look at the laminate industry ranging from let us say 0.6 mm to 1.5 mm, does the margin profile significantly differ when we move from let us say 1 mm to 1.5 mm or even the size which is away from the standard size that we actually manufacture?

Saurabh Mittal: The 1.5 mm in the domestic market is a very, very small now, most of the business has moved to 1 mm, so typically the 1 mm business is the most profitable part of the business because it is a specified business and the product quality, the design texture moulds are superior than what you would do in the lower sector business, and in terms of dimensions, we also mentioned in the 4x8 category of more economy of scale because you are buying more raw material, you are producing more, there is more efficiency. In the different sizes of laminate, it really depends on

what the situation of market is. If you are at the entry stage, you are probably producing more commodities of low margins and below. If your model has been stabilized over a period, you move to a value-added items, you probably have high margins, so it is a branded distribution model, it is not really commodity business to develop pull in business, to get a specification and to get the branding right, it does take some time. It also depends on at which stage of the business you are in.

Ajay Thakur: Are you seeing any kind of premiumization happening in the laminate segment as such with changing consumer preference especially in the urban markets?

Saurabh Mittal: Nothing which is new, nothing has changed in three months from that perspective, so it is mixed. I would not say that anything specific which we can talk about right now.

Ajay Thakur: I was not asking from a three-month perspective, I was just wondering whether it is happening from last one or two-year perspective and would that actually translate into something which we have a longer-term target?

Saurabh Mittal: If you take last few years input, what it could happen in the future with the price gap narrowed between unorganized and organized, people are willing to pay an additional price probably and move to a branded product because quality standards, availability of material, and specifications are superior.

Moderator: Thank you. We have the next question from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Just one clarification to the last question which was just asked, you said the long-term margin is for laminate should be about 17% to 18%, did I hear that correctly for EBITDA margin?

Saurabh Mittal: Yes, you heard it correct.

Prashant Kutty: You said that H1 is about 14.5 at this point of time?

Saurabh Mittal: H1 was 13.5%.

Prashant Kutty: Just wanted to ask you, Sir, typically when you are talking about these margins moving from the 13.5 to 17 to 18 kind of margin, and technically when you are also talking about that the most of the business has been transferred to a 1 mm kind of a business as well, where do you...?

Saurabh Mittal: I did not say that most of the business transferred to 1 mm, I told 1 mm is the most profitable part of the domestic business.

Ashok Sharma: Just what Sir has said from 1.5, the market has moved to 1 mm.

- Prashant Kuttu:** What would be the current mix of 1 mm versus let us say 0.8 as of now for us?
- Saurabh Mittal:** I think we can send you that data later on.
- Prashant Kuttu:** Sure, but this point was regard to the EBITDA margin front, Sir, what do you think typically would be the drivers to get back to the 18% kind of an EBITDA margin number?
- Saurabh Mittal:** The way we said earlier that we can utilize capacities to 115% to 120%, which means that capacity utilization will probably bring in nearly 100 to 120 crores of more top line and this is all Brownfield, so incremental EBITDA on this revenue will be high. We said we can go from 14 to 20 million sheets capacity in the existing plants. When you add more lines, your fixed costs reduce and your incremental EBITDA on the additional volume sales will also be high. If you run the math, we assume that with better working of domestic market and improved revenues will probably translate to higher margins.
- Prashant Kuttu:** This is basically utilization improvement and leverage probably driving that margins?
- Saurabh Mittal:** Yes, utilization improvement and also gradually improving the product mix and also we said that the subsidiaries just turned profitable for us last year after on an average five to seven years of operation and we think that as time passes, we should be able to fully improve our profit and it also contributes to improve our margins.
- Prashant Kuttu:** Sir, second point is typically again, not trying to make a comparable over here with the other listed player over here, but just if you look at the growth rate for them versus our growth rate as far as the laminate is concerned, I am sure they would have probably seen a better distribution expansion led growth, how are we on that front in terms of distribution expansion, do we feel that we probably have some scope for that distribution expansion especially at a time when you are saying that the demand is a little weak over here?
- Saurabh Mittal:** Sure, again if you are putting the top line of the domestic market, H1 we have grown volume 14% and value 19% and this competition whom we are referring to has degrown 2% volume and has grown value 8%, like I said we have still more opportunities in distribution. We have more opportunities to add more customers in the OEM segment and we can do better in the project segment, yes, obviously there are opportunities across various parted segments in the laminate category.
- Prashant Kuttu:** Sir, technically what would be a comfortable level of growth because typically if you look at the volume number at about 14% and value at about 19% that looks to be a reasonably good number, correct me if I am wrong over here again, but what is the kind of comfortable revenue growth number or a volume growth number that we are looking at as far as laminate per se is concerned for us, how much rather would let us say additional demand help us in that growth rate?

- Saurabh Mittal:** We have not put a figure. Our numbers are there, our endeavour is to do better, so really we are not putting a number, I will not put a number to you right now, the best capacity is to increase our utilization to 115% to 120% we can add these capacities in a nine-month period, our warehousing across the country is quite well settled now, so really I cannot put a figure, if demand grows up more, we will do more.
- Prashant Kutty:** The only reference point was with regard to directionally only, because you said that restocking has still not happened, but despite that it is still a reasonably good number, that is the reason I asked you that how much more room is left, that is the reference point actually?
- Saurabh Mittal:** We have enough room to go and service the demand if that happens, so we are driving to improve the revenue I can say that.
- Prashant Kutty:** Lastly, any cost levers that we probably have which can also help us in our EBITDA margin numbers especially rising from, I am sorry if I missed it out?
- Saurabh Mittal:** It utilization improves from 115% to 120%, as in nearly 100 to 120 crores of top line, literally cost addition is fixed only your variable cost of freight and packaging go up. I think that also a big....
- Prashant Kutty:** I was just referring to any particular cost-saving initiatives which we have anything of that sort I was referring to that, not about the utilization?
- Saurabh Mittal:** We have cost initiatives across most of the value chain including logistics and supply chain, but really all of this is going to be contributing small pieces in the whole improvement of EBITDA.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference over to the management for closing comments.
- Saurabh Mittal:** Thank you so much, Ladies and Gentlemen for your time, for your questions and we appreciate you taking off time to listen to us and give us your feedback and your perspectives also, and if there are any further queries or questions come at a later point, you can address them to us and we should be happy to respond to them. Thank you so much once again and very Good Evening.
- Moderator:** Thank you Gentlemen. Ladies and Gentlemen, on behalf of Greenlam Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.