



“Greenlam Industries Limited Q2 FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Greenlam Industries Limited Q2 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the belief, 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Saurabh Mittal, Managing Director & Chief Executive Officer, Greenlam Industries Limited. Thank you and over to you Mr. Mittal!

Saurabh Mittal: Thank you. Good afternoon friends. A very warm welcome to all of you. I hope you are all keeping safe and healthy. On the call I am joined by Ashok Sharma, our CFO, Samarth Agarwal from the Finance Team and SGA our investor relations advisor. The results and presentations are available on the stock exchanges and our company website and I hope everyone has had a chance to look at it.

This quarter we saw an improvement in the revenues on the sequential basis as most of the domestic markets opened up. While certain urban markets were partially opened if you view the entire quarter, Bombay, Thana Kolkata was shutdown, they had certain problems, so if you look at Q2 from our perspective most markets had opened up, but certain urban centers were still struggling with the virus cases. Most of the international markets were opened besides few markets in South-East Asia. So the business on the international front has come to near normalcy as you can see which is a nearly at a 93% of what we did in Q2 FY20. Domestic business has also pulled up when compared to Q1 and has come to 80%-83% normalcy but was still below the pre-COVID level. In last quarter we did face some challenges on the export front in terms of containers availability ~~versus~~ delay which also led to certain revenues which could not be recognized in Q2 and that problem still persists in this quarter as we move ahead.

While revenues were at 83%-84% on an overall basis, you probably have seen that we held on very well on the balance sheet front, we managed to reduce the debt which increased in Q1 and beyond that too we reduced about 14 –15 Crores of debt and we had cash in the balance sheet. The debtor’s days improved to 32 days which has been one of the best for us for some time now and costs were well managed in this period. So the focus on the quality of the balance sheet remains which is aligned to our philosophy and I think we did it fairly well on that front. In terms of the demand situation, currently in the international markets by and large demand is back to what we were experiencing last year same time. While we do not see

growth in the export demand, but with some markets growing and some markets are still struggling, on an overall basis we think international business demand is by and large near to pre-COVID kind of level.

On the domestic front too surely there is an improvement in the demand and if there are no other surprises of lockdown etc., we think H2 we should be able to do reasonably well on the domestic front too. On the domestic front the residential demand seems to be more robust than the commercial part of the business and besides the domestic and international demand improving in H2, we think we will gain from the shift from unorganized to the organized players.

We also think there would be improvement in the flooring business because of the issues of imports and people moving to domestic manufactured products. So overall we think our H2 should be better than H1 and obviously I will put this for disclaimer subject to no surprises and no fresh lockdown impact..

On the product side, we launched the antivirus product in last quarter in August and this was backed up with the marketing campaign. This is launched in the flagship brand of Greenlam, which is very well received in the market and we really started talking about the health and hygiene, strengths we had with the product, we are offering anitbacterial of over 10 years and with this pandemic we made more noise about it, we communicated to our customers and on the same path we launched antivirus and now you will be happy to know that Greenlam, the flagship brand, now comes with triple safety features of antivirus, antibacterial and antifungal properties and this has been very well received in the market.

The other feedback or the other update is on the Greenlam South Limited which is the plant we had planned to build in Andhra Pradesh, so we are moving ahead with the necessary approvals from the government, environment level clearances and certain other approvals so the moment we get those approvals, we will begin to build the plant. I cannot give a date on it right now but yes obviously it has got postponed because of the COVID and certain delays etc., but by and large once the approvals come in, we will start constructing the plant. I do not think that is going to happen in this financial year, probably it will move to next financial year.

The other point I am sure you will know, is today's announcement of incorporating a company in Russia. This is to market laminates in Russian and CIS countries. We are just going to start with one person currently, but we hope to scale this up in the near future.

So, that is it from a business update from my side and I am sure things will improve in H2 versus what we did in H1. I will now handover the call to Ashok Sharma to take you'll through the financial highlights post which we will be happy to answer your questions and happy to take your suggestions also. Ashok, over to you!

Ashok Sharma:

Thank you Sir. Dear friends, I will take you through the financial performance.

Please note that the financials are not comparable on six months basis due to partial shutdown of operation in Q1 due to pandemic, so I will focus more on the Q2 financial highlights.

For Q2 FY21 on console basis, net revenue de-grew by 17.1% on a Y-o-Y basis at 289 Crores. However, on quarter-on-quarter basis, the revenue grew by 80.4%.

Gross margin improved by 190 basis points on Y-o-Y basis and stood at 48.9%. On quarter-on-quarter basis gross margins declined by 80 basis points. Gross profit in absolute terms declined by 13.7% on Y-o-Y basis and stood at 141.6 Crores whereas this has improved by 78% on QoQ basis.

EBITDA margins remained flat on Y-o-Y basis at 14% however on quarterly basis, EBITDA margin improved by 910 basis points. EBITDA in absolute terms declined by 16.6% and stood at 40.5 Crores on Y-o-Y basis. On QoQ basis, there is a huge improvement in EBITDA of around 415%.

Net profit for the quarter declined by around 33% to 18.6 Crores in this quarter as compared to 27.5 Crores in the corresponding quarter last year. Net profit for the last year for this quarter was higher on account of onetime tax benefit of Rs.9.7 Crores under the new tax regime announced by government in September 2019.

Moving on to segmental performance, laminate and allied products formed around 89% of our Q2 sales. Laminate revenue de-grew by 12.7% to 258.5 Crores in this quarter from 296 Crores in Q2 last year, however on quarterly basis, laminate revenue improved by around 77%. Domestic laminate revenue de-grew by 18.8% in value terms. However, in the volume terms, the de-growth was lesser and it de-grew by around 5.4%. International revenue de-grew by 6.9% in value and in volume terms it de-grew by 8.6% for the quarter. EBITDA margin improved by 80 basis points and stood at 16.2% as against 15.4% in Q2 last year. EBITDA margin has improved by 770 basis points on quarter-on-quarter basis. Laminates Production volumes were at 3.24 million sheets and utilization level was at 83%. Sales volume for the quarter stood at 3.23 million sheets, a decline of 7.1%. For quarter-on-quarter

basis laminate volume grew by 87% and production improved by 62%. Our average realization for the quarter was at Rs.772 per sheet as against Rs.803 per sheet for Q2 last year.

Moving on to decorative veneers and allied business, which formed around 11% of our Q2 sales. This segment consists of decorative veneer, engineer doors and floors. Total veneer and allied revenue stood at 30.8 Crores in this quarter, a degrowth of 42% on Y-o-Y basis. In the decorative veneer segment, revenue for this quarter de-grew by 50.8% and stood at 14.8 Crores on Y-o-Y basis, however, sequentially decorative veneer revenue improved by 136%. Capacity utilization for the quarter stood at 18%. Sales volumes were at 0.21 million square meters. Sequential production and sales of decorative veneer improved by 189% and 149% respectively. Average realization stood at Rs.704 per square meter as against Rs.670 per square meter in Q2 last year.

Moving on to engineered wood flooring, revenue for this quarter degrew by around 39% to 9.1 Crores. However, on sequentially basis, revenues grew by 173%. EBITDA loss for this quarter was narrowed down to 0.7 Crores from a loss of 1.1 Crores last year same quarter. EBITDA loss in Q1 FY21 was 1.5 Crores.

Moving onto engineered doors, revenue for this quarter degrew by 13.6% and stood at 7 Crores, however sequentially, revenue improved by 35%. EBITDA loss for this quarter was at 0.8 Crores as against 0.9 Crores in Q1 FY21. Capacity utilization for this quarter stood at 29%.

Moving onto balance sheet, net debt for this quarter stood at 249 Crores as against 318 in Q1 FY21 resulting in a reduction of 69 Crores. In comparison to March 2020 also, we were able to reduce our debt by 14 Crores. Working capital cycle saw improvement from 383 Crores in June 2020 to 346 Crores in September 2020 due to improvement in inventory and debtor cycle. However, the same is still elevated as compared to March 2020, due to higher inventory and lower sales. This is all from our side. I would now like to open the floor for question and answer.

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

Nehal Shah: Thanks for the opportunity. Sir my question would be on the demand for laminates, as far as the market shares gains are concerned like last quarter we were hoping for market share gains across domestic as well as overseas, are we already seeing that or do you think that is still sometime away?

- Saurabh Mittal:** Nehal I think on exports, in the categories we offer, we are gaining market share and on the domestic too if you see versus Q1 the volumes have gone up and the realization have reduced a bit which means that 1 mm business is still not at what it used to be while the commodity products that we launched, sales have gone up and each passing month, we see that the 1 mm business is coming back to normalcy while we are also able to continue and keep building on the commodity side which is the 0.7 category, so in my view whatever we see in here, I think we are moving in that direction and obviously we cannot quantify so clearly, but I think we are moving in that direction.
- Nehal Shah:** Right and on 1 mm category do you think the discretionary spends are now coming back?
- Saurabh Mittal:** Yes, I think it is coming back since we track secondary sales of most distributors across the country and like I was saying earlier in July-August or even Q2 we still had lower sales in markets like Delhi NCR, Mumbai-Thane, Bengaluru, so these urban markets which are largely 1 mm markets, so there was still pressure, shops were still shut, markets were not completely open but in September, we saw secondary sales improve and even October has been quite decent from that point of view, so answering your question yes it is coming back Nehal.
- Nehal Shah:** Yes, and my last question, has the degrowth gone away in October because October you will have a benefit of the festive base of last year?
- Saurabh Mittal:** Yes, we do not have any degrowth in October.
- Nehal Shah:** Great Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.
- Sneha Talreja:** Thanks a lot for the opportunity Sir. Couple of question from my end. Firstly, you said that container availability was one issue due to which your exports got impacted, can we quantify the same just to gauge how much is the normalcy that we have gained?
- Saurabh Mittal:** You could assume that from a business point when we had full normalcy in exports and the way we recognized revenues of exports is when goods sails from the selling port and not from the date of dispatch and where our subsidiaries are concerned we recognize revenues when the goods reach the destination ports. Because of lack of availability of vessels and container availability which resulted in some delays, I am not been able to put a figure to it, but you could assume that we are nearing at a normal revenue on that front. So, assuming for the

subsidiary sales what could have been recognized as revenue in September has moved to October and delays of availability of trucking and at the ports also.

Sneha Talreja: Right, may be if the situation was normal, we would not have seen this kind 9% sort of a drop, It could have been even 0% is what I wanted to understand?

Saurabh Mittal: Yes, you could assume that.

Sneha Talreja: Okay, my second question was of course you have mentioned your domestic realizations are down because your 0.7 mm sales are picking up versus 1 mm, could you just give us the mix of the same?

Saurabh Mittal: Last year also we discussed this, you will have to take this offline with Ashok, please I cannot give you a number on this right now.

Sneha Talreja: Sure.. Also I mean repetition of the first question about the competitor intensity that you know you are seeing versus smaller players, of course you discussed this in brief last quarter, market share gain could be there, if at all you could put some number on how do you see industry must have grown or you know of course degrown because even you have seen decline, so what could be according to you H1 the decline in the industry could have been?

Saurabh Mittal: Honestly, I cannot put a number to it, I will just be making a wild guess which I do not want to do, so really I cannot put a number to it, what pulls the decline, I am afraid I cannot put a number on that.

Sneha Talreja: Okay, Sir one last question from my end would be from the distribution front, just want to know the number of distributors today as on may be six months back what it could have been?

Saurabh Mittal: So, not much is seen from the distribution front what has changed may be addition of secondary dealers who buy from distributors. May be just few distributors who have probably got added on so, there is not much change on the primary distribution front. Secondary dealers probably have increased for the commodity products getting into the market.

Sneha Talreja: Okay, got that. Sir, thanks a lot and all the best. I will just come back in the queue.

Moderator: Thank you. The next question is from the line of Shrenik Bachhawat from JM Financial. Please go ahead.

Shrenik Bachhawat: Hi Sir, thank you for the opportunity. Sir, I wanted to understand that gross margins contracted by 80 basis points quarter-on-quarter, so is that the same is in conventional cost as

has been offset by the commodity laminates, that is the first question. Second question is having the employee cost come back to pre-COVID levels? Thank you.

Saurabh Mittal: We have restored all the pay cuts etc., which we had done and this is effective October 2020, that is one response. On the gross margin contraction versus Q1 certain costs have gone up a bit, some chemicals, certain paper costs etc., I think it is a minor shift in RM cost not an essential cost increase or something.

Ashok Sharma: The dip which we are seeing versus Q1 it is because there is some amount of cost which has gone up in Q2 which we have seen but it is not a major impact which we are seeing.

Saurabh Mittal: Yes, realizations also come down.

Shrenik Bachhawal: Fine Sir, from commodity laminate segment what would be the EBITDA margin?

Saurabh Mittal: I cannot put a figure over that right now. I am asking Ashok to take it offline please.

Shrenik Bachhawal: Okay, thank you.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Equirus Securities. Please go ahead.

Pranav Mehta: Hello Sir, thank you for taking my question. Just wanted to understand on the raw material front, are you seeing any cost inflation on the raw material side for next two quarters and even for FY22?

Ashok Sharma: Pranav just like what I mentioned that the dip what was there in the Q1 as compared to Q4. However, the cost from Q1 has slightly gone up in Q2 but still the costs are much lower in comparison to Q4 and most of the cost come down in chemicals. Going forward we are not seeing any huge cost increase or increment as of now

Pranav Mehta: Okay Sir, and just wanted some clarity on your door and floor businesses, I see that door is gaining some traction, but the floor is still not able to do so. Can you through some light on how things are going to move in both these segments going forward?

Saurabh Mittal: On the flooring business we will see an improvement in this quarter, we have business lined up and certain executions could not take place on the flooring business rather actually it has come down a bit versus Q2 of last year so, we should see improvement in the flooring business in this quarter.

- Ashok Sharma:** If you see in flooring from Q1 to Q2 there is an increase in the same obviously the sales of doors did not come down to that extent, but as I said you can see the improvement in this quarter and quarters to come.
- Pranav Mehta:** Sure Sir, thank you very much.
- Moderator:** Thank you. The next question is from the line Rishikesh Bhagat from Kotak Asset Management. Please go ahead.
- Rishikesh Bhagat:** Just two questions from my side, firstly when you made this comment about container availability for export, I believe we import some degree of paper also, so any challenge of availability in import from paper also or any difficulty on that front, paper?
- Saurabh Mittal:** On the import front, availability is not a problem because the exporting nation is shipping that container and availability is not a challenge there. However, the delays of vessel and some congestions is observed but it is a minor impact so, yes there is an impact of that congestion and clearances but not of its availability.
- Rishikesh Bhagat:** Okay, and my second question I know it was asked but more or less on the similar line now when you make this comment that 1 mm is gradually picking up then is it a fair assumption that since now that mix might increase over slightly relative towards 1 mm, the EBITDA margins can increase because as Ashok Sir, said that not much impact on the raw material side. So, if I believe that gross margin might get maintained here in around same levels. So, EBITDA margin can increase with improvement in mix?
- Saurabh Mittal:** You are right if the mix improvement happens on 1 mm, EBITDA margin could improve because gross margins in 1 mm are higher and margins are also high in 1 mm so, yes you are right on that.
- Rishikesh Bhagat:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah:** Good evening gentlemen. I just wanted to understand the industry dynamics in terms of imports, I mean how does imports contribute to the overall laminates and the veneer furniture business and how has it moved over last couple of quarters?
- Saurabh Mittal:** We will have to take this independently because we will have to give you full information.

- Harsh Shah:** Sir if you can just throw some light?
- Saurabh Mittal:** Okay, just very quickly, in laminates the import of the finished product is very minimal while raw material is largely imported and what was the next question you had?
- Harsh Shah:** I mean how has this moved over last couple of quarters for laminates and Veneer furniture's?
- Saurabh Mittal:** Furniture I cannot talk much, I cannot give you a figure on that, on the laminate & Veneer business the imports are largely of raw material, the finished goods imports are limited. While in the flooring and door business especially in the flooring, literally everything gets imported into the country. In the door segment you could say it is the mix between domestic production and imports happening. But as far as the trend and figures I am afraid I cannot bet give a figure on that side.
- Harsh Shah:** Okay, and would you be in a position to highlight how much of your sales are going towards institutions or wholesale and how would be retail. Just to understand which market is picking up.
- Saurabh Mittal:** Again, this is going to be more like a general direction feedback 60%-65% revenues coming from the residential of the market if you say domestic the balance comes from the commercial market.
- Harsh Shah:** Okay, and where are you seeing better growth of the two?
- Saurabh Mittal:** At the moment if you say the retail residential market seems to be more versus the commercial market but it is not such a huge swing.
- Harsh Shah:** Just digging a little deeper when you say residential then is the demand more towards refurbishing and the renovation of individual houses or is it going more towards the bigger projects of say three buildings- four buildings and entire project?
- Saurabh Mittal:** Again, like these are all estimate by and large the newer construction, newer interiors consume more laminates and renovation process in our country in general is low there could be improvement for additions but largely it is more newer interiors, newer projects, newer homes, newer construction which would end up consuming more percent of our products.
- Harsh Shah:** Okay, I get it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vikram Sony from GeeCee Investment. Please go ahead.

Vikram Sony: Couple of questions would you be able to share what is the mix of 1 mm versus 0.7 mm for us in this quarter, what was it last year?

Saurabh Mittal: Actually, we cannot share that and last year we did not have a 0.7 mm category, so it was only 1 mm and 0.8 mm.

Vikram Sony: But 1 mm how would it in terms of the growth or the de-growth much higher in the 1 mm, right?

Saurabh Mittal: Yes, sure whatever we have seen negative growth is in the prime category.

Vikram Sony: Okay, and how is the pricing power are you able to get a good reasonable pricing for the 0.7 mm and similarly how is the competitive environment you are seeing even for 1 mm on the pricing front?

Saurabh Mittal: On the pricing front in the 0.7 mm commodity product the ability to get a premium is very limited because it is a commodity liner product which is used inside of a furniture or back of the table or inside a kitchen or a wardrobe. While in the 1 mm you have pricing power because it is specified product and based on design, texture, it is visible, people can see the product. So, 1 mm we have more pricing power, 0.7 mm we have limited pricing power.

Vikram Sony: Okay, and we are reading that couple of other players they are putting capacity like Stylam is putting capacity some other players. Do you see the risk of the market being over capacitated?

Saurabh Mittal: The laminate industry always had a lower utilization versus installed capacity, so adding capacity in this business is not the only reason for being successful. So, capacities are mostly surplus with most manufacturers. The sales, marketing, distribution is more of a challenge in this business. So, from that perspective if you look at local company, so many of the companies their utilization levels will be sub 50% sometimes sub 40% that is not unusual to have higher capacity and raising capacity is not sort of a challenge so in nine month to twelve month you can have that capacity.

Vikram Sony: Okay, and one last question, the plywood is the like a lead indicator, the sale of plywood and all those precursors to tell us because then the demand of Veneer comes. How are you seeing the initial signs in the month September-October in terms of the demand for all our products?

Saurabh Mittal: Laminates and Veneer can be pasted on plywood and sometimes depending on the product like we do many specialty products in laminates like Facade laminates which is installed on

a box and partition products which is a self-supporting product. Yes, but largely laminates and Veneers for the domestic market is pasted and stuck on a substrate which is chipboard, MDF or plywood. Answering your question on October, like I said earlier we did not experience any de-growth in the month of October, the revenues was equal to what we generated in October-2019.

Vikram Sony: Okay, thank you very much.

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

Achal Lohade: Thank you for the opportunity. Sorry I am harping on the gross margin question, if I look at on a YOY basis, we had about close to 200 basis points increase in margins, now on one hand we have some benefit of the chemical cost, but we also have product mix which is kind of little weaker than what it was earlier given the 0.7 mm contribution, so just to wanted to understand little bit more in terms of the margins, how do we look at the gross margins going forward, is there a substantial difference between the 0.7 mm and 1 mm and between domestic and export?

Saurabh Mittal: So, the gross margin improvement like Ashok explained earlier is the function of some lower cost and besides the domestic business we also have an export business where the realization has improved due to value mix improvement and certain currency depreciation also. So while there is a commodity segment, but the shift is not so high that will impact the gross margins negatively or margin negatively. We are into the commodity segment also but the value mix improvement which we have done in the international market with some currency gains and with RM cost reduction has led to this improvement.

Ashok Sharma: Going forward since as I mentioned earlier that we are not seeing any increase in the raw material cost as of now, we feel that we should be able to maintain this gross margin.

Achal Lohade: When you say maintaining the gross margins you are taking in your mix as well in the account.

Ashok Sharma: Yes obviously.

Achal Lohade: My second question was, when you said about October revenue flat YOY, is it in volume terms or is it the revenue

Ashok Sharma: You can assume right now in value terms.

Achal Lohade: Okay, my next question was in terms of the export, now you said there are issues with respect to container availability, but you know in terms of the visibility, momentum in overseas market how are you looking at, are you looking at in substantial increase let us say theoretically this container availability is streamlined in next two months, let us say Q3, how do you look at next six months to twelve months from a exports momentum perspective?

Saurabh Mittal: So, I think I have mentioned that earlier and we are repeating this, from the exports I think if you take at least six months I am not talking the twelve months, we should be able to do what we did so called pre-COVID numbers in both quantities and value so certain markets are in a good momentum, certain markets have still problems, certain markets still have little bit of shutdown/ lockdown so if you were to combine everything, we think overall we should be able to maintain a pre-COVID kind of performance by and large.

Achal Lohade: Okay let me ask in another fashion, I mean if I look at the export's revenue assuming close to 50-50, we are talking about Rs.550 Crores to Rs.600 Crores of export, is it possible to give which are the top five countries and what is their contribution in the total exports so that one can have some more granular understanding about these markets?

Saurabh Mittal: So, I did not follow, you want us to give you the market wise data, is that what you are asking?

Achal Lohade: Which are the top four or five key market for us and what is their contribution aggregate basis?

Saurabh Mittal: So, I will have Ashok Sharma connect with you on that.

Achal Lohade: Sure Sir and if I may ask with respect to the south plant you said you are waiting for the approval, but let us say once the approvals are in place what is the timeline given it is a Greenfield plant, what is the timeline that we have in mind and the capex of the same and the capacity?

Saurabh Mittal: We have announced Rs.175 Crores of investment of which about Rs.45 Crores is already been done because we have taken a larger piece of land, once we have the approvals which is primarily the environmental clearance then the other approvals that are the routine approvals we do not see much time being consumed in that, we will be happy to start building the plant the moment we have all the approvals in place and we are looking at installing two press lines initially of laminates that too of larger sizes for those particular line which we want to install the presses, we are already experiencing near full capacity utilization in the existing plants for those particular sizes.

Achal Lohade: Sorry, in terms of the timeline it can be done in nine months to twelve months like you said earlier, or it will take a more time?

Saurabh Mittal: So, if you take all the approvals in place, I think you can take 12 months to 15 months some issues here and there because it is a Greenfield from the date we start building 12 months to 15 months.

Achal Lohade: And how much of the total lines will be used in the Rs.175 Crore investment or rather Rs.130 Crore investment, like that 20% or 30% of the line?

Ashok Sharma: Yes, it will be a small part of the line and we said earlier we are evaluating certain new products and new categories also which is still being studied and because of COVID its all delayed so yes we will be probably within that or it may be even lower than that.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, my question was on a per unit basis we have seen decline in realization for both laminates as well as decorative veneer, in the prior comments you did indicate about the value mix and some currency favorable impact, is it possible for you to give some sense what were the variables which led to sequential decline in realization or is it the way in which the market demand is playing out and there is down trading of products which is leading to lower realizations and if that is so, are we doing something to counter this trend into the forthcoming quarter, that is the first question.

Saurabh Mittal: I will respond to that. On the valuation reduction in laminates, we have realizations come down by about 3.9% Q2 on Q2, Q1 on Q2 reduction has come down by about 4.7% so we said this earlier in the domestic space that the 1 mm sales is gradually coming back to pre-COVID levels and once that is achieved I think the realization should come back to what we used to do, but alongside we also introduce commodity lines which is a lower price so while there could be certain reduction in the realization that would improve output and improve production we still be able to hold on to the gross margins and the overall margins and it could be even better.

On the international front, Q1 is not really comparable because it just had about six weeks of operation, if you see Q2 versus Q2 international exports have actually gone up by about 3.5% that is on the laminates front, which is a function of improved value mix and some currency depreciation.

On the Veneer front Q2 on Q2 realization actually improved by 5% and versus Q1 has shrunk by 5% again the base of Q1 was so small that data cannot really be so meaningful. So, answering your question I think by and large realizations are in a similar band and obviously we have not achieved normalcy, still we have not achieved normalcy in sales, there are problems here and there so I do not think it is a huge concern of down trading or reduction in realization, I think this will kind of stabilize in the coming quarters and even if there is a small dip we think margins should still be under control.

Ritesh Shah: Thank you for that. Sir, my second question is how is the inventory in the channel and you did made a remark that that the larger companies are actually getting market share, can you provide some more color over here, is it like shift in loyalties from the retailers towards the larger guys or is that the working capital which is a bit tight for unorganized sectors and hence the larger guys on the organized side are benefited?

Saurabh Mittal: Your voice is not completely clear but whatever I gather I will respond, the inventory in the channel our distributors are very much under control and that is completely reflected in the improvement in our credit terms, our business clause has always been to drive the secondary sales and focus on the quality of the business so really there is no excess inventory in our distributor channel of our products.

Ritesh Shah: Sir, I am asking for the industry I think we are on fine footing?

Saurabh Mittal: So, in industry typically the local unorganized companies and many other branded companies also end up giving large open credit to distributors so normally these guys, they have probably more inventory of unorganized companies and which are obviously on open credit terms.

Ritesh Shah: Sir, has that thing changed because of the COVID and are we benefitting out of it?

Saurabh Mittal: I think that again what we hear from the market that lot of mid size smaller companies have had issues of collecting money from the distributors, they have had disputes of inventory returns and collections and sales issues so I think we have benefitted and we continue to benefit by disruption in their supply chain, disruption in their cash collection cycles, disruption from their business model.

Ritesh Shah: Sure. Thank you so much for the answers, I will join back the queue. Thank you.

Moderator: Thank you. The next question is from the line of Jay Unadkat from Kotak Mahindra Bank. Please go ahead.

Jay Unadkat:

Hi, very good evening to everyone. Sir, I wanted to understand how the furniture market in India itself is changing a little bit, the likes of IKEA coming into India and directly selling furniture effectively changing the way our business can get impacted, also the recent entry of Asian Paints into this business and exploring the possibility of having a higher play in the furniture business, if you could throw some light on this, also I want to extend this question if you thinking if you are in talks with any of these larger players where you could be a supplier of priority for them given the kind of positioning and brand that the company enjoys for such a long time.

The second question if I may ask is on the import substitution opportunity which you enter into playing way earlier then the competition which I assume will give you some edge on the doors and the laminate business, given the kind of consolidation that we are seeing in the builders community from the organized gaining more share, does this business make it a bigger opportunity than it was when you planned it or is it shrinking into a smaller number of players you can reach out to. Thank you.

Saurabh Mittal:

So, I will take that first question first. On the IKEA furniture sale whatever I know and the last update I had, and we were in talks with them at one point, but most of the products they buy or wish to buy is primarily particle board based product which we do not have currently. What I knew last was the furniture pieces they are selling more, more miscellaneous sales happening right now rather than hardcore furniture from their Hyderabad store, this is my feedback.

On Asian Paints, yes we are aware that Asian Paints bought this kitchen company and it is not new it has been a while, they bought Sleek and now they are trying to market the kitchens made from Sleek and also marketing kitchen shutters and panels so yes we are in touch with them, inspecting our designs and the cost for their kitchen shutter program and kitchen shutter business. We do work with certain e-com players like Livspace etc., we are the mainline partners for supplying laminates for the kitchen shutters that is from the organized space.

On the import substitution the discussion which you had the flooring and the readymade doors I think these two segments have an opportunity with the import substitution potentially happening and with the builders getting consolidated and they are giving out ready to move in the apartment and spaces. So, laminates was not being imported in the country, only the raw material is imported as I said earlier but yes in general with consolidation of companies, we think we stand at great opportunities in the future and we are engaged with many builders like for example in Mumbai, Oberoi Realities are our biggest customer for the readymade door business. We also work with Kalpataru, so yes, we are engaged with several builders for the doors and the flooring business.

- Jay Unadkat:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak Asset Management. Please go ahead.
- Hrishikesh Bhagat:** So, my question is on the potential capex of Rs.175 Crores, any thoughts on how the funding will be ready for this and how much will be debt and how much will be from internal accrual?
- Ashok Sharma:** The overall capex which we have mentioned is Rs.175 Crores out of which Rs.50 Crore is already been spent out of internal accrual for the land and balance Rs.125 Crore also will spread over a longer period so most of this will be met through the internal accruals.
- Hrishikesh Bhagat:** So, entire capex largely will be from internal accrual?
- Ashok Sharma:** So, Rs.50 Crore has already been spent so that remaining Rs.125 Crore which will be spread over a period, I think it will be close to around 18 months or two years, which will be funded through the internal accruals.
- Hrishikesh Bhagat:** Just wanted to check the comment, you replied to one of the question for the earlier participant about the whole supply chain disruption and difficulty in cash collection I think last quarter when we had an interaction and since there was no clarity on how long will it sustain but if I understand your comments correctly this has continued even going into Q2 also in the sense for a large part of Q2 also, the difficulties for the smaller players in terms of supply chain disruption and cash collection difficulty?
- Saurabh Mittal:** Yes, you heard rightly.
- Hrishikesh Bhagat:** Thank you.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Thank you for the follow up opportunity. Just one question, again going back to the margins part with respect to the EBITDA margins, for the quarter for laminate business we have reported as 16.1% but I also see that the employee cost was down 14% YOY for the quarter and the employee cost is a significant percentage of revenues, so is it fair to say that this would be the margin we could look at somewhere around 16% going forward or you think this is probably to do with cost savings which will get normalized in next quarters?

Saurabh Mittal: So, the cost will get normalized, but I think with improved business and revenues I think we could look at mitigating these margins.

Achal Lohade: Got it. That is really helpful. Thank you so much.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Saurabh Mittal for closing comments.

Saurabh Mittal: I would like to thank all of you for joining the call and I hope we have been able to respond to your questions satisfactorily. I think some of the queries will be taken by Ashok offline, so thank you once again for your time. Thank you.

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