



“Greenlam Industries Limited  
Q3 FY2020 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Greenlam Industries Limited Q3 FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on 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 remainder, 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 and Chief Executive Officer, Greenlam Industries Limited. Thank you and over to you Sir!

**Saurabh Mittal:** Good afternoon everyone and a very warm welcome to all of you. On the call I am joined by Ashok our CFO, Samarth from the Finance team, and SGA, our investor relations advisor. The results and presentations are available on the stock exchanges and our company’s website and I hope everyone had a chance to look at it. I am going to ask Ashok to take you through the business environment and Samarth to take you through the financial performance of the business and post which we will be happy to answer to your queries, questions, feedback if any.

**Ashok Sharma:** Good afternoon friends. I will take you through the business environment, which was there in the last quarter. 2019 was an eventful year for the building material industry while on the commercial real estate side we have seen some signs of revival, on the other side, residential real estate market continues to be under pressure and we are still having challenges. However, with the latest view of bailing out of inefficient and profiteering private builders with stressed funds of Rs.25,000 Crores by the government, we expect better and positive sentiments to unfold for the entire industry. The thrust from the government on the infrastructure development continues to be strong growth driver for the industry.

At Greenlam, we have been able to deliver satisfactory performance on the back of consistent focus on increasing the proportion of value added products, effective cost management along with disciplined balance sheet and focus on cash flow. This has resulted us to emerge as an industry leader. We have demonstrated competitiveness across market cycles.

On the laminates business, the recent commissioning of the additional capacity of 1.6 million sheets is well on track to service the international market.

Decorative veneer business is seeing competitive challenges along with demand pressure due to which our business degrew during the quarter. However, we are able to respond to the

market developments with speed and agility and expect normalcy to return in this business in quarters to come.

Our engineered floors and doors business continues to grow at a strong pace as we continue our efforts to build strong market both for domestic and international.

We continue to focus on increasing the efficiency of large pan India and international distribution network with more than 40,000 touch points in India and overseas, which ensure timely availability of our products in almost every part of the world.

I am happy to announce that our wholly owned subsidiary Greenlam South Limited has approved to set up a manufacturing facility at Naidupeta, Nellore in Andhra Pradesh for manufacturing of laminate and allied products. Greenlam South has been provisionally allotted land by APIIC (Andhra Pradesh Industrial Infrastructural Corporation), land of around 65 acres in Naidupeta. In the current expansion program, we shall enhance our laminate/board capacity by 1.5 million sheets per annum. The total cost of project is estimated to be Rs.175 Crores, which includes the initial cost of land and other infrastructure. The proposed capacity is to be operationalized within 24 months and will be funded through a mixed of debt and capital infusion from Greenlam Industries. With this our existing capacity of 15.62 million sheets under Greenlam will go to 17.12 million sheets in FY2022.

To sum up, we believe we are prepared with adequate capacities and capabilities along with a diverse range of product portfolio to grab these opportunities and expect to enhance the proportion of value added products in our portfolio as we step forward in the next phase of growth.

Now I will hand over the mike to Samarth to run through the operational and financial highlights of the company.

**Samarth Agarwal:**

Thank you Sir. Hello everyone and good afternoon to you. I will take you through the financial performance of our company for the quarter as well as the nine months which ended on December 31, 2019.

First we will start with the consolidated performance for the quarter, which is Q3FY20.

The overall revenues grew by 14% and stood at Rs.358 Crores as compared to Rs.314 Crores in the previous financial year. Gross margin improved by 200 basis points to 50.3% in the current quarter as compared to 48.3% in Q3 FY2019. This was largely due to better product mix and a stable raw material cost. The gross margins in absolute terms increased by 18.6%

to Rs.180 Crores in the current quarter as compared to Rs.151.8 Crores in Q3 of FY2019. EBITDA margin grew by 220 basis points to 15.3% in current quarter from 13.1% in the similar quarter previous year. EBITDA grew by 33.1% to Rs.54.6 Crores in Q3 FY2020 in comparison to Rs.41.1 Crores in Q3 FY2019. PAT for the current quarter grew by 46.7% and stood at Rs.29.1 Crores as against 19.8 Crores in the corresponding quarter of the last year.

Coming to 9MFY20 performance

On a consolidated basis our net revenue grew by 8.3% to Rs.997 Crores as against Rs.921 Crores in 9M FY19. Gross margins improved by 160 basis points to 48.9% in 9M FY20 from 47.3% in 9M FY19. Gross margins in absolute terms increased by 11.9% to Rs.487.6 Crores in 9M FY20 as compared to Rs.435.6 Crores in 9M FY19. EBITDA margin grew by 90 basis points to 13.3% as compared to 12.4% in 9M FY19. EBITDA grew by 16.6% to Rs. 133 Crores in 9MFY20 as compared to Rs. 114 Crores in 9M FY19. PAT for the nine months grew by 21.8% and stood at Rs.65 Crores as against Rs.53.4 Crores in the corresponding period of last year.

As of December 31, 2019, the total debt stood at Rs.245 Crores including short-term debt of Rs.150 Crores. Our debt to equity stood at 0.5. On an annualized basis, our ROCE stood at 17.2% whereas our ROE stood at 17.8%. The working capital cycle was stable at 92 days in the nine months period.

Coming to the segmental performance, we have two segments Laminate and Allied products and Decorative veneers and Allied products.

First we will start with laminate and allied products, which contributes 83% of our Q3 revenue and almost 84% of our nine months revenue.

For Q3FY20, laminate segment recorded sales of Rs.297 Crores with a growth of 13.2% on Y-o-Y basis. Laminate export sales grew by 25.7% on Y-o-Y basis for Q3 FY20. Our production volumes stood at 3.74 million sheets, a growth of 7.8% and utilization levels stood at of 96%. Sales volume for the quarter stood at 3.54 million sheets with a growth of 7.8%. EBITDA margin for this segment expanded by 490 basis points and stood at 18.4%. Our average realizations for a quarter stood at Rs.799 per sheet as against Rs.761 per sheet, which is up by 4.9% on Y-o-Y basis.

For the nine months tenure, the laminate sales grew by 7.2% to Rs.839 Crores. The laminate export sales grew by 10.7% on Y-o-Y basis. EBITDA margin expanded by 220 basis points to 15.6%. Production increased marginally by 2.1% to 10.51 million sheets with a capacity

utilization of 97% and sales volume remained flat at 9.79 million sheets. The average realization for the nine months stood at Rs.806 per sheet as against Rs.762 per sheet, which is a growth of 5.7% on Y-o-Y basis.

Coming to the decorative veneers and allied segment, contributed about 17% of our quarterly sales and about 16% of our nine months sales. This segment includes decorative veneer, engineered wood floor and engineered doors. For the overall segment the total revenue stood at Rs.61 Crores as against Rs.51.5 Crores in Q3, which is a growth of almost 18% and for the nine months period the sales for the entire segment grew by 14% and stood at Rs. 158 Crores as against Rs.138 Crores in 9MFY19

Coming to the individual segments within the decorative veneer and allied. For the decorative veneer segment for Q3FY20, the revenues degrew by 5.5% at Rs.33.5 Crores as against Rs.35.4 Crores. For the nine months tenure, the revenue degrew by 5.8% to Rs.88.9 Crores as against Rs.94.4 Crores. The capacity utilization for the quarter stood at 43% and for the nine months stood at 39%. Sales volumes were at 0.46 million square meters for the quarter and 1.21 million square meters for the nine months tenure. Average realizations were at Rs.719 per square meter for the quarter and Rs.724 per square meter for the nine months period.

Coming to the engineered wood flooring segment for Q3FY20, the revenues grew by 71% at Rs.15.5 Crores and for nine months the revenue grew by almost 40% and stood at Rs. 42 Crores. The capacity utilization stood at 23% for Q3 & 9M FY20.

For the engineered doors business, the revenue stood at Rs.12 Crores with a growth of almost 71% for the quarter and for the nine months period the revenue stood at Rs.27 Crores with a growth of almost 93%. The capacity utilization for Q3 was at 36% and for nine months it was 29%.

That is all from our side. We now leave the floor open for questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** What explains the reduction in profitability in the allied and veneer segment where especially the growth in the allied products is so strong one would have expected capacity utilization related operating leverage to flow in, so if you could explain that for the quarter and for nine months there is erosion in both the places?

- Saurabh Mittal:** Yes, rightly said. The volumes in quarter have been quite decent in floors and doors and margins have actually slipped primarily due to value mix in the domestic and export business. So I think that is the prime factor why margins are low on both the segment in doors and floors.
- Ashok Sharma:** Another thing, which we have said in our commentary also that the decorative veneer business, which normally has better margins, in this quarter and in the nine months period due to competition, there has been pressure on the margins due to which the overall segment margin has come down.
- Pritesh Chheda:** My second question is on the laminates margin, they are fairly high at about 18% in the quarter and 15.5% in the nine months, now this 15.5% is also number, which is higher than what you would have ever reported in the last so many years, so is this 15.5% sustainable?
- Saurabh Mittal:** The margin expansion of laminates is a function of improved volume specifically in Q3, improved value mix for the domestic and sustainable raw material cost in Q3 versus Q2. So I am not sure if this is sustainable or not. Internally we still think there is more scope to drive volumes up whatever additional capacities we have since many of the markets are still underperforming, domestic market in volume terms has hardly seen any growth. The numbers are not very optimistic, ground situation is challenging and we are continuing our efforts and our endeavor is to maintain the margins.
- Pritesh Chheda:** Lastly one clarification you mentioned that the capex is Rs.175 Crores in that land cost is Rs.100 Crores that is how you mentioned?
- Ashok Sharma:** No. Land cost is Rs.50 Crores in this.
- Pritesh Chheda:** So 1.5 million sheet will incur a capex of Rs.125 Crores?
- Ashok Sharma:** The proposed capex is for sheets and boards. Currently, we are not present in certain sizes or dimensions in the laminates/board So we are putting two press of which, one press will cater to different size where the boards will be produced rather than the sheets, which normally has the lesser quantity and we are currently not present in that segment.
- Pritesh Chheda:** The 10mm boards?
- Ashok Sharma:** That can vary from 4mm up to like 18mm.
- Pritesh Chheda:** What will be the asset turn for this capex of let us say Rs.125 Crores if I exclude the land?

- Ashok Sharma:** At 100% capacity utilization it can generate revenue of around Rs.300 Crores and since this is in the initial level, there is a lot of other infrastructure requirements which is why the cost normally at the initial stage is always on the higher side of capex cost, but over a period of time, when you do future expansion you do not require to put that much capex, so the asset turn will keep on increasing as and when we do further expansion. We have sufficient space to do the expansion and future growth.
- Pritesh Chheda:** Thank you and all the best to you Sir.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Export business was high in this quarter and I think in value terms it was much higher than volume, so is that there was an increase in prices or this was just a function of rupee depreciation, which has led to higher value exports?
- Saurabh Mittal:** Export volume went up by about 20%, revenues were about 25%, so primarily a function of value mix improvement and as you know that in September we added the new capacity at the Nalagarh, Himachal Pradesh plant, catering to the larger size of laminates primarily addressing the European market requirements. So I think the increase of sales in that segment also increases per sheet value so lot of product mix improvement. So while volumes went up product mix also improves naturally.
- Ashok Sharma:** There is not much of a change in the foreign currency in this quarter in comparison to previous so most of this is what Sir has mentioned.
- Bhavin Chheda:** Due to this new line, so this export momentum will continue going into the coming quarters right?
- Saurabh Mittal:** That is our endeavour Bhavin.
- Bhavin Chheda:** Capex of I think Rs.175 Crores on the new line and how that would be spread over 2021 and what is the commissioning date of that newline?
- Ashok Sharma:** In this the land cost will be coming in FY20 since we have been allotted the land and we need to pay for that land, so that is approximately Rs.50 Crores which will be in this year and rest will be in FY21 and FY22. The estimated time period is approximately 24 months since we have already bought the land and land development and all the infrastructure needs to be built.

- Bhavin Chheda:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Sir just wanted to understand the strong volume growth that we have seen in the exports part of it is it that we have tapped into new geographies or any particular market because of competition you are seeing better market share gains and how should one look at this or was it purely led by the capacity addition that we had done?
- Saurabh Mittal:** Nothing specific has happened. I think we added a capacity and that particular size of the product we had bottlenecks in our capacity. So by adding the additional capacity, we were able to serve the market more efficiently and there was a backlog of demand from the customers who wanted to buy from us.
- Abhishek Ghosh:** It is only a market segment, where you were not largely present you have kind of added that product portfolio?
- Saurabh Mittal:** We were present, but that segment of the market wanted more products from us and we have gradually sustained touch points, so with the speed up by adding the capacity, which we did in September 2019 it is primarily the result of that decision.
- Abhishek Ghosh:** If you can just help me understand both in the domestic and the export market we have seen realization increase of 5% odd overall, but what we understand is overall demand or market continues to be weak, and currency also has been largely flat on Y-o-Y basis, so the realization improvement is because of the product mix or have you also taken like-to-like price increases in certain products?
- Saurabh Mittal:** There has been no price increase, it is a function of improved value mix in the domestic market and production of some new products within the category itself and like I said to you the size of 4.25 x 10 we had capacity constraints, which were freed up in the last addition, so it is serving up market, which also improved some realization, so there is no price increase. It is the result of value mix improvement.
- Abhishek Ghosh:** Lastly if you can just help me with the competitive intensity in both domestic and the export market and is there a change in the competitive intensity because usually when you have seen when the demand is weak the competitive intensity across the product categories is increasing, so is there a visible change that you see in the last six months or you are seeing competitive intensity is stable?



**Saurabh Mittal:** I think competitive intensity is high in the business more in terms of throwing out more discounts and giving out more credits. It remains the way it is and I cannot talk of any specific player and as you know we have been quite disciplined in our cash flows and pricing. We do not end up in a way competing with many of these guys, but competitive intensity in the market was high.

**Abhishek Ghosh:** I have a few more questions I will come back in the queue. Thank you so much and all the best.

**Moderator:** Thank you. We will move on to the next question that is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

**Pavan:** Could you give us a little more colour on the export market in terms of how you see the ROCE evolving there in comparison to the domestic business is it basically about continuing to do what we have done in the last few years and build a brand with key decision makers, architects, contractors, etc., what is our strategy there going forward given that we are up against some pretty big well established global names, is it that we do a very good job of influencing and also price more competitively than those guys, is there a particular offering that we are providing them that possibly the competitors are not as fast to offer and second section is around Royale Touche, so Greenlam and Merino are the two dominant players for several years and I have noticed in your annual report that you talk about Royale Touche, is this a company that came up in the last few years and do you expect or see any further entrants of significant size on the laminate side domestically?

**Saurabh Mittal:** On the exports front we are present across several geographies and fortunately or unfortunately within that markets we are not market leaders, we are not number one, number two or even number three in most of the markets we are present. So there is a significant upside across markets in both volume terms and price point improvement and over the years we have been able to establish a very good network with channel partners, with some large OEMs and the effort has been and will be to continue to work in this direction to work with architects, to work with distributors, to work with large kitchen producers, wardrobe producers, so the export momentum I think will continue and we are quite optimistic of this point of business. In between we had few challenges but now with the product offerings, with the teams across with the networking in place, we think this part of business will do well. In fact in the expansions we have announced, we are going to put up one size of the press, which will serve certain other segments of market in which we are currently not present, but we are present in those countries and associated with those OEM customers, but we are not able to service that particular segment so this particular new press line will also expand our addressable market, so that is on the export front. While I say this, I must also say that couple

of international players are going through the own churn, Formica has got sold with a new team, Wilsonart has informed that the Asia business has a new owner, one of our large competitors are having their own challenges, so we also have some slippage by few of the larger international players and we think that will help us get some more market share and expand our business and markets where these competitors are present in a meaningful way.

Second question on the Royal Touch matter, so I think the reference is more to the domestic 1 mm business. So Royal Touch is a very old company. They have been in the business for over 50 years, so they are not new. I think from a market leader position, I think our business is not comparable, sizes of revenues, production capabilities, I think it is still Greenlam and Merino, so I do not think that has changed much. While people have added some capacity, but really I think from overall product offering and product performance, capability, domestic reach as well as global reach, I think it is still the two of us in that space.

**Pavan:** Thanks very much, really appreciative.

**Moderator:** Thank you. The next question is from the line of Ajay Sharma from Maybank Asset Management. Please go ahead.

**Ajay Sharma:** Just wanted to again touch back on the new plant, I think you are talking about a turnover of Rs.300 Crores on investment of Rs.175 Crores which is like has a turnover of less two times, and currently you are running more like four times, how are you evaluating the returns on this investment basically?

**Saurabh Mittal:** The land we are buying is about 65 acres and we do not need 65 acres to run two production lines, so the idea is to start with two press lines and typically we add capacity every 18 to 24 months even if we grow at a 5% volume growth, every 18 to 24 months we will add one production line. So post these two production lines, the incremental capital expenditure will be very small while the revenues generated would be more like a 1:4, 1:5 kind of a math, so eventually as we add more and more products and more lines, so this would even out at some point and also we do not need 65 acres to just produce laminates. We are also evaluating certain other opportunities in our category, which we are not sure of currently. So potentially in the future we could add one more product line in that land. So this is just an initial investment. Of the Rs.175 Crores, Rs.50 Crores goes into land and development would cost Rs.125 Crores approximately because it a brand new plant, so all infrastructure needs to be built considering the fact that we will be expanding every 18 to 24 months in this plant and so on the returns perspective, currently the laminates business on a nine month basis is about 30% ROCE business, so really we are putting the money in this part of the business, so we should be good.

- Ajay Sharma:** What is the max capacity you can reach in this new plant?
- Saurabh Mittal:** Right now we are investing in two lines, but as I said if you see a capacity of every 18 to 24 months on an average, we need to add one production line even if we grow at a 5% to 6% volume growth annually. So, when we put the third, fourth or whatever we put there, incremental capital expenditure will be small while the revenue will be higher. So it would be more like a 1:5 max in that plant as we add capacities in that particular plant. So there is adequate space. Today we run six lines in the Himachal plant in a near 20 acre land, so there is enough space to add more production lines there and we are also looking at doing some more products at some point there, so it is more like an investment for the future. We are just investing on these two products for now.
- Ajay Sharma:** Second question on your raw material basket, specifically for laminates, basically how is that in terms of either increase or decrease in third quarter compared to either second quarter or previous year third quarter basically, I guess it is a lot of chemical related and I think some of the prices are softening as the crude crashes, I am just wondering how do you see that playing out?
- Ashok Sharma:** In terms of our raw material for laminates, nearly two third is paper and one third is chemical and as you rightly said, chemical prices keep on fluctuating. Even though in the Q3 we had more fluctuation in comparison to Q2, but in comparison to year-on-year basis, in comparison to Q3 FY19, raw material prices have come down for chemicals and this is resulting into the growth in the return.
- Ajay Sharma:** The paper prices are stable is it, going forward?
- Ashok Sharma:** Paper prices are more or less stable.
- Ajay Sharma:** Okay, thank you very much.
- Moderator:** Thank you. The next question is from the line of Ashish Poddar from Anand Rathi Research. Please go ahead.
- Ashish Poddar:** So just continuing with the last question, so we had seen strong expansion in laminates margin, again I was just wondering was it also because of the RM softening or only because of the better mix and also I think that in the previous call you have highlighted that exports and domestic business margins are more or less similar. So despite strong growth in exports, I am just wondering whether it was because of the higher contribution from the exports also? If you can clarify. My second question is on the engineering doors and floor business, while

we are seeing strong traction in the topline, but still the losses continue in the segment, so I think we have reached to a fair bit of capacity utilization to somewhere around 30% in both the businesses, still the losses continue, so your comments there would be helpful?

**Ashok Sharma:** In terms of first the laminates margin, laminates margin has gone up in this quarter if you compare with the previous, yes some part of this is due to reduction in the raw material prices as I said previously also. But if you compare with the Q2, raw material prices were largely flattish, so in comparison to Q2, the increase in margin is largely on account of higher volume as well as the better product mix.

**Ashish Poddar:** Better product mix overall or because of the export business?

**Ashok Sharma:** Overall, you can see that the realization has gone up both in domestically as well as exports, in both segments. It is overall in terms of that.

Moving onto your next question in terms of doors and floors, in the floors our capacity utilization as of now is 23%, in the doors it has reached above 30%, we were able to generate the volume, but not at the right product mix. We are yet to reach to the right product mix which would generate the right margins, and another point which I mentioned in the previous question that our margin in the traditional Veneer segment also, the decorative Veneer segment also has come down in comparison to previous year due to increased competitive intensity, so we saw the overall margin reduction for the overall segment as a whole.

**Ashish Poddar:** So when do you see again profitability coming into this business?

**Saurabh Mittal:** We are thinking every time it will happen in the next quarter, but it does not happen. The volumes are coming in despite the bad market, we are getting business, some business I think obtained at an aggressive price point, we have not compromised anywhere on our cash flows and collections. Really, sometimes it is just like a touch and go, you feel that it is going to happen, but it just does not happen. We are on track to develop the business, good work is happening on ground, yes it is not visible on the numbers completely, but point taken.

**Ashish Poddar:** Any new additions on the real estate builder side or any, can you give some colour there?

**Saurabh Mittal:** So there have been addition of a couple of customers. Couple of customers have delayed shipments, from where the orders have come, they do not want the shipment, so it is a bit mix stuff right now, the floor and door considering the market conditions. You win some, you lose some. The challenge is to keep adding more customers and more business.

- Ashish Poddar:** And are you still concentrating on the Bangalore side market
- Saurabh Mittal:** Strategy is not changing, in doors we still focus on the five domestic markets and some export market, and flooring we are doing projects and retail, so from a strategic perspective, not much has changed. We are just keeping the focus and attention and working towards having more satisfied customers, having better installations, so it is WIP, nothing dramatically has changed in terms of direction, so we are just focusing on what we have agreed for and the team is clear with the direction that we are moving. So it just has to happen now, I think.
- Ashish Poddar:** Got it Sir and best of luck for the future.
- Moderator:** Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** Sir, can you give a sense of the value added mix in Q3 2019 and Q3 2020? Any sense of value added mix percentage?
- Saurabh Mittal:** I do not have it right away, so I will ask Ashok respond to you offline.
- Achal Lohade:** If the value added mix continues to be the same as this quarter, are the current margins sustainable?
- Saurabh Mittal:** If the value mix continues, yes current margins will be sustainable. Whether it continues or not is something uncertain. Obviously, we want it to continue and our efforts are in that direction, the products, the sales, the marketing, the reach with customers is in that direction, so it really depends on how this goes.
- Achal Lohade:** Relating to the AP plant, I wanted to know the debt equity mix and second I wanted to know will any political instability affect the capex plan?
- Saurabh Mittal:** Ashok will let you know. From the political side, since it is an industrial land in an industrial area which we are buying, so I do not think political instability should impact.
- Ashok Sharma:** The land is brought at the current market price whatever is there without any discount or any rebate from the government, so we do not feel that there is anything, we have followed all the norms and processes, and purchased at a fair price. Our industry per se is not in which you will need more involvement from the government either in terms of approval or something, it is just the initial level approval which you will need for any industry. I do not think that can have any impact on us. In terms of debt and equity, see the portion is as of now it Rs.175

Crores only, we will see how it goes depending on overall cash flow and depending on that only we will take a call.

**Achal Lohade:** Sir Rs.50 Crores you said for the land will be in FY20, so the balance Rs.125 Crores will be equally split in FY21 and FY22?

**Ashok Sharma:** Will depend upon how soon we are able to complete that. Difficult, but I think in the ratio of 60:40.

**Achal Lohade:** Okay Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

**Sneha Talreja:** Sir, most of the questions have been answered. Just a few questions. The new plant that you are putting up, will that have any kind of tax advantage, means will it fall under the new tax regime for the new plants?

**Ashok Sharma:** No there are no tax advantage, of course AP government does have some benefit under the industrial policy, it depends upon the expense we have made, may be on that, but there is no tax advantage.

**Saurabh Mittal:** But we will fall under the new lower tax regime, 15%.

**Sneha Talreja:** So it will fall under the 15% tax bracket?

**Ashok Sharma:** It is a new business and new unit which is formed after the announcement, so it will qualify for the lower tax.

**Sneha Talreja:** Sure, just one more question, as you rightly said that this quarter everything was driven by exports market, but you also mentioned that there was demand that was there for the new products, which just got commissioned during September, so is that the base effect over and could you quantify how much it could be because of the order which were pending or we can consider the amount to be in a sustainable kind of growth?

**Saurabh Mittal:** I cannot put a number to it, our utilization in Q3 has been 96% and we can go up to 110% utilization, so from a capacity perspective, not much stress, I cannot put a number to it though.

- Ashok Sharma:** But some of the sales might be from previous orders because we had capacity constrain, we were having some backlogs which got serviced during this, but it is difficult to give a number to them.
- Saurabh Mittal:** But the orders will be regular, the model of the business is not that you ship once and it is over, it continues.
- Sneha Talreja:** Sir, you said Europe is the geography which is driving this kind of a growth, so any kind of visibility that you are looking at about 10% to 12% kind of growth in exports market, or is it some other markets also driving the growth, if some sense if at all you could given an outlook on the same?
- Saurabh Mittal:** No we cannot give too much outlook on that please.
- Moderator:** Thank you. The next question is from the line of Rishikesh Bhagat from Kotak MF. Please go ahead.
- Rishikesh Bhagat:** Sir, there was this plea by phenol manufacturer on some additional duty on import, so any colour you can put on what is the status of that, where they want to restrict import or put some additional duty on import of phenol. So any colour on that?
- Ashok Sharma:** That is still pending with the government and this is routine. Previously also phenol from some of the countries were having anti-dumping duty, which got over in the last year and now with the new phenol manufacturer in India, they are trying, so that will depend upon the facts of the case. Still it is pending with the government.
- Saurabh Mittal:** In our trade like Melamine, phenol we keep getting these issues and it is not something new that has been happening for quite a few years actually.
- Rishikesh Bhagat:** Secondly Sir, you said that new unit will help tax of 15%, but there is a clarity on that right, it will not have any legal issues because it will be largely on an existing entity only?
- Ashok Sharma:** We are doing whatever is required by the law, this is a new facility. It is not under Greenlam, it is under 100% own subsidiary, newly formed company and this will be a newer business. It is not that we are moving from the business from the existing unit to this new unit. So we will take care of whatever is required by the law and we have consultants doing all the things that are needed by law.
- Rishikesh Bhagat:** Okay Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Sir what will be our tax rate because in the first half also the number looks less than 20%, so what will be the tax rate for this year and next year?

**Ashok Sharma:** This first half it was less because of the tax reduction which has happened. So the deferred taxation of all the previous year whatever the balance was got reversed and that has reduced the tax rates. If you see in this quarter, the tax rate in the range of 22% to 23%. At India level, it is 25%, but overseas in some of the jurisdictions the rates are lower than 25%. So we believe that we will be in the range of around 22% to 23%.

**Pritesh Chheda:** Lastly Sir, we have seen the debt is largely static for some years, now we have this Rs.175 Crores capex, so do we internally have any plan to look at the debt in terms of when do we think we should repay, any thoughts on that?

**Ashok Sharma:** If you see in this nine months, debt is reduced by around Rs.25 to 30 Crores and some amount of investment which has gone in terms of the initial money of this Rs.50 Crores, lets us say Rs.5 Crores has been paid as advance money, so around Rs.35 Crores debt which has been reduced in comparison to previous year and we believe that we will be able to take care of this additional requirement through the internal accruals.

**Pritesh Chheda:** What will be the operating cash flow for nine months?

**Ashok Sharma:** Somewhere around Rs.75 to 80 Crores but I will check and come back.

**Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

**Abhishek Ghosh:** Sir just one thing in terms of the doors and floors segment, we have come very close to breaking even because of the product mix, the losses again mounts, so when are you looking in terms of break even on an annual basis or on a sustainable basis, is it utilization pegged or how should you look at it?

**Saurabh Mittal:** I think we have answered that question before and I will do it once again. The effort is to break even at the earliest but at times the volume is coming and the value does not settle in or there is aggressive pricing at times because we are not compromising on the payments or the credit terms, obviously this year the way things go, it does not seem like we will kind of break even in nine months. So it probably it gets pushed by another year I guess.



- Abhishek Ghosh:** Is there a lot of competition that you are seeing in terms of lot of these players coming with door and floor, is it because of that or it is generally demand being weak?
- Saurabh Mittal:** In terms of competition nothing has changed, it has always been there. I think it is more of a demand situation which is a problem. Although we have orders we are not able to meet them, some projects are getting delayed so it is more of a demand and the market situation I think, not really competition.
- Abhishek Ghosh:** One more thing, employee cost, we have seen about almost an 18% kind of an increase on a Y-o-Y basis, so is this very regular or how should one read into this?
- Saurabh Mittal:** Employee cost has also probably gone up because we had one acquisition in Europe, we also had an expansion of a capacity, which also had more manpower. I think more because of new expansion doors and floors has been producing more, there are more workers needed, one international acquisition also had some employees coming in and then the routine appraisals of the team members.
- Abhishek Ghosh:** Okay Sir, thank you so much for answering my questions and all the best.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** My question was on the new unit. I think you answered about the tax incentive. You mentioned that except for that 15% tax, there are no other tax incentives about this new unit, right?
- Ashok Sharma:** There is no tax incentive per se, but of course the state government does have some benefits which is linked to the investments.
- Bhavin Chheda:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.
- Dhiral Shah:** Sir what would be our channel mix, like B2B or B2C?
- Saurabh Mittal:** The laminates business domestically is all run through distributors and we have some direct accounts with large OEMs. The Veneer business is also largely distributors and some large project or contractors. Door mostly directly to customers, builders or developers. Flooring is

a mix between retail and B2B projects, so each category has its own. The exports business is all through distributors or direct large OEMs like kitchen producers and door and wardrobe producers.

**Dhiral Shah:** Is there any ballpark figure, lets us say overall retail how much and institution how much Sir?

**Saurabh Mittal:** Even through distributors we have sales going into institutions and going to retail also.

**Dhiral Shah:** Any number between residential, real estate focus and how much would be the commercial real estate side, is there any number?

**Saurabh Mittal:** No there is no number.

**Dhiral Shah:** Lastly in terms of net working capital, do you see this kind of a working capital cycle will sustain or do you feel there will be further improvement?

**Ashok Sharma:** The endeavor is to reduce the working capital cycle, but as you see that two of the business has still not reached a certain threshold wherein we have invested entirely into them, but still they need to give the full result. We see that over a period of time this can improve a bit.

**Dhiral Shah:** Okay, thank you Sir.

**Moderator:** Thank you. The next question is from the line of Forum Makim from Equentis Wealth Advisory Services Private Limited. Please go ahead.

**Forum Makim:** Sir, I am sorry I missed the export number in the laminate segment, can you please share it again.

**Ashok Sharma:** Number we shared only the growth percentage, in terms of the exact number we will come back to you on a one-on-one basis.

**Forum Makim:** Okay Sir, thank you.

**Moderator:** Thank you. The next question is from the line of Vijay Karpe, an Individual Investor. Please go ahead.

**Vijay Karpe:** I have just one question. Are there any chances of capacity constrains before the new plant comes in?

- Saurabh Mittal:** Actually constraints are already existing in laminates of one particular product category. Besides that, I think it will just be time, I think by the time we have maxed out the capacity of the existing facilities, the new capacity should be ready.
- Vijay Karpe:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Saurabh Mittal:** Thank you everybody for your time, patience and your valuable queries. Ashok will respond to you if you have anymore questions and he will get back to the people who had some questions which were to be responded off line. Thank you so much.
- Moderator:** Thank you. 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.