



“Greenlam Industries Limited Q3 FY17 Earnings
Conference Call”

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MANAGEMENT:

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Moderator: Ladies and Gentlemen, good day and welcome to the Greenlam Industries Limited Q3 FY17 Earnings Conference Call. 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 the date of this call. These statements are not the guarantees of future performance and involve risk 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 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, Mr. Mittal.

Saurabh Mittal: Good morning friends and a very warm welcome to all of you. On the call, I am joined by Ashok Sharma, our CFO, and SGA, investor relationship advisors. The results of the Q3 and nine months have already been sent to all of you and are available on the exchange & company website. I am sure you have been able to see the results. I will not talk too much on the demonetization. I think you all probably know the impact and the understanding of it is fairly well in public more than all of us know in our company, but yes, the demonetization steps in Quarter 3 did impact our business and we have seen a 8% decline in the overall sales, and EBITDA margin has impacted profitability, although we have been able to reasonably manage our working capital cycle, debt management etc., but there was an impact on business. As we talk now, we think the impacts of demonetization at least from laminates business is not to be seen and we are working to build the Quarter 4 revenues and margins, and we really think it will be better than what we did in Quarter 3. I will now hand over the phone to Mr. Ashok Sharma and he will take you through Quarter 3 and nine months results, post which we will be happy to answer to your queries.

Ashok Sharma: Good morning friends. I will take you through the standalone performance of the company. For the third quarter ended December'16, revenue for the quarter declined by 8% to Rs. 222 crores primarily due to de-growth witnessed in the domestic markets. Gross profit was at Rs. 99 crores with the margin of 44.8%, a margin decline of 135 basis points. EBITDA for the quarter was at Rs. 27 crores and EBITDA margin was at 12.2%, a decline of 190 points. PAT for the quarter was at Rs. 7.7 crores against Rs. 11.7 crores in the same quarter of previous year. Our domestic sales declined by 10.3% to Rs. 133 crores in this quarter due to the after effects of demonetization. Exports de-grew by 4.4%. Now, I come to nine months ended December 16. Revenue grew by 2% to Rs. 702 crores, gross margin were at 45%, an expansion of around 85 points. EBITDA de-grew by 0.9% to Rs. 87.2 crores, margin stood at 12.4%. PBT was at 41 crores against Rs. 43.8 crores in the same quarter last year. PAT was at Rs. 25.7 crores and margin stood at 3.7%. On the operating performance, return on capital employed of the business was 15.3% in nine months FY17 and return on equity was at 11.8% in nine months FY17.

On the net working capital, we are able to improve it by three days from 64 days in last year to 61 days in this year. Inventory was higher at 88 days while debtors were reduced to 38 days from 53 days earlier. Creditors was also reduced by four days from 68 days to 64 days. Now, I move on to segmental performance. Laminate and allied products form 86% of our third quarter sales and recorded a sale of Rs. 191.4 crores a de-growth of 6.1%. Sales volume for the quarter were at 2.94 million sheets. Our production volume were at 2.85 million sheets, a capacity utilization on 95% for the quarter. Our average realization for the quarter was Rs. 616 per sheet, a fall of 4% due to change in product mix and lower domestic sales. EBITDA margin were at 13.8% for the quarter. International business contributed to 45% in terms of value and 51% in terms of volume. For nine months FY17, we have registered a growth of 2.6% to Rs. 608 crore and volume growth of 4.6% to 9.25 million sheets. Margin for the same period expanded by 110 basis points to 14.7%.

Now, I move on to decorative veneer and allied segment, which forms around 14% of our Q3 sales. Our sales de-grew by 19% to Rs. 30.2 crore. For the nine month FY17, the sales declined by 1.5% to Rs. 94.4 crore. In this segment, decorative veneers having brand name of Decowood, production was at 0.26 million square meter with a capacity utilization of 25%, sales volume was also at 0.26 million square meter. For the nine month FY17, production was at 0.96 million square meter and sales were at 0.97 million square meter. Engineered-wood flooring under the brand name of Mikasa has clocked a sale of Rs. 11.4 crore for the nine months for the current year with the capacity utilization of around 6%. Engineered door segment is gaining traction and clocked a sale of Rs. 8.8 crore for the nine month FY17. In this, export shipment has contributed nearly around 50% of the overall sales. This is all from our side. I would now like to open the floor for the question and answer.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the export markets, so how are you seeing the demand recovery and what is your expectation in next year in terms of growth in different products, which are being targeted for the export market?

Saurabh Mittal: The export market growing at a slower pace., so I think if you look at exports this year on an annualized basis, we should be in the growth band of maybe 5-6% and we are targeting only laminates business as usual. We are looking at exporting doors which we already started in Qtr. 3 and some bits in Qtr 2. Over the next year, I think you could look at a safe 7-8% kind of growth rate in export on a consolidated basis.

Anshuman Atri: In the door market, how is the domestic acceptance in the retail versus institutional, is it largely towards institutional and what are steps to make it more towards the retail segment?

Saurabh Mittal: On the door market, it is primarily working towards building the institutional sales currently which are the project sales. The nature of business, the model of business is focused towards doing more projects through institutional sales than less retail sales, because the model is a pre-measured, pre-hung, make-to-measure door model and for retail sales currently there are too many different dimensions, sizes, permutation and combination of market, so the current focus of the business is to build the institutional sales. Talking of the institutional sales, when we closed December, we did have a fairly reasonable size of orders backlog in the company and there were delays from developers, builders often projects, due to their own issues and their site readiness cash flow challenges, but the focus on doors is on institutional side only currently.

Anshuman Atri: What would the current utilization for this?

Saurabh Mittal: Currently, if you look at the utilization, if we look at Qtr. 3, we have done sales of about 18% in Qtr. 3.

Anshuman Atri: Okay, 18% utilization and for Mikasa it was 6% for nine months?

Saurabh Mittal: Yes, if you look at nine months, Mikasa floor was 6%, Mikasa door was 12%.

Anshuman Atri: For the quarter for Mikasa?

Saurabh Mittal: Mikasa floor in the quarter also was 6% and Mikasa door was 18%, even on the Mikasa floor, I must mention that we have a decent backlog of orders which were postponed by customers.

Moderator: Thank you. We have the next question from the line of Zeeshan Bagwan from Investec. Please go ahead.

Zeeshan Bagwan: I have two questions, firstly, on the gross margin, can you provide some color on the raw materials, how has that flared this quarter and how will it move going forward?

Ashok Sharma: In terms of gross margin, if we divide in laminate, the raw material which is on the chemical side has seen an increase in the last quarter and the same trend is continuing even in this quarter also and if we come to paper side, which is more or less stable as of now. If we move on to the veneer, prices are stable there, so the overall company if I talk about only in the chemical which is mostly related to laminates that have been showing some increase.

Zeeshan Bagwan: Will you be able to pass on this entire increase to your customers?

Saurabh Mittal: The way we are going to handle it, primarily our focus will be on building the volumes and the value of sale., we think with the expansion of the volumes and value, we should be able to negate the impact of the RM cost, and in case we cannot, we will pass on the cost increase to the customers.

- Zeeshan Bagwan:** My second question is on the sales front, laminates how have you seen the sales trend in the month of January post-demonetization?
- Saurabh Mittal:** Laminates for us January was a regular month, so we think the impact of demonetization on the laminates business, so people did not talk about it or channel partners, dealers, sales people, you could say it could be a normal month from a demonetization perspective.
- Zeeshan Bagwan:** You expect Qtr. 4 to be a normal month?
- Saurabh Mittal:** I said that I think it should be a regular Quarter .
- Zeeshan Bagwan:** What is the sales growth that you envisaged for FY18 for both the segments, laminates and veneers?
- Saurabh Mittal:** If you look at FY17, probably you will know with this slip in Quarter-3, I think on a consolidated basis, we probably be like a 5-6% top line growth for this financial year. If you look at FY18, you probably can see a 7-10% kind of a band for the top line growth.
- Zeeshan Bagwan:** This is on a consolidated basis?
- Saurabh Mittal:** Yes, and we are expanding capacity in Qtr 2 next year, when the new capacity will come on stream, so may be the second half of the next year would be slightly higher, but I think it could be 7-10%, maybe even could go up a bit more also.
- Zeeshan Bagwan:** Lastly on the realization front, your realization has dropped 3.8% in this quarter compared to last year, when do you see this trend stabilizing?
- Saurabh Mittal:** Ashok mentioned that, so if you look at the realization on the domestic front, the slip is around 1.8%. On the exports, realization reduction is about 6% which totals to 3.7%, of overall if you see, the reduction drop is primarily because domestic sales were lower. On the export front, we had reduction in sales on compact business category, which has got the realization bit lower, while on consolidated basis, we probably would not see that.
- Moderator:** Thank you. We have the next question from the line of Achal Lohade from JM Financial. Please go ahead.
- Achal Lohade:** What I wanted to check is you said that probably the impact of demonetization is kind of over for laminates, just wanted to understand how have you seen unorganized segment actually behaving in this particular two-three months' time because that would also be relevant from a GST regime point of view?

Saurabh Mittal: We have got mixed signals from the unorganized sector. Clearly, the impact on them is far larger than we have heard, again we cannot kind of authenticate the communication or information, but we have heard that several factories and local plants were shut down for couple of weeks. We have heard that they have reduced production, they have tried to improve the billing component in several markets, which led to eventual cost increase to the channel partners and dealers, so when I say it is a normalized month, you could potentially say that in a way you could be taking away share from the unorganized competition, but yes, they are under stress.

Achal Lohade: Would it be possible to know what kind of volume growth the industry must have seen on a decline, what unorganized could have seen?

Saurabh Mittal: I will be making a wild guess, there would have been a decline or a fairly constant so as to what percent I don't know, I just be giving you a number because you are asking me to give you a number.

Achal Lohade: In terms of the GST, as per the media reports, it is probably July 1st, how do you look at this in terms of the rate as well as stocking by the channel?

Saurabh Mittal: I will have Ashok respond on GST and I can respond on the stocking part.

Ashok Sharma: In terms of GST, as of now there is no clarity on rates, whether it will be going to be 18% or in the higher range because in some states it is at the lower end of the VAT as the product is for the mass consumption, it is used everywhere, even in the low cost housing, still there is no clarity on rates. But as per our view whether it is 18% or 28% will not make a difference, major difference will be how the Government is going behind the compliance level, which as per whatever is in the public domain, that government will push the compliance in a bigger way because the data analytics and everything will be available, so GST - will provide a big boost to the all organized player.

Saurabh Mittal: In terms of stocking, we have distribution centers practically in most part of the country. We are able to service most of the national markets within a 24 to 36-hour period which is visible from our improvement in our debtor period also, so even in Quarter-3, our debtor have actually improved, so there could be a small challenge here and there but by and large, we do not see a challenge in the laminate space. The flooring and the door business, this will be 100% advanced from project to project model, while the veneer business is a stock and sell model, so their people have high levels of inventory, we could have some impact on the veneer businesses in terms of inventory.

Achal Lohade: In terms of the growth, you kind of indicated 7-10% growth for FY18, is it possible to kind of talk about in terms of the margins for the two segments separately?

- Saurabh Mittal:** I am not sure whether we can really talk about for next year right now, but if you look at nine months standalone laminates operating margins are at about 14.7%, so that improved versus last year nine months in value and percent, and even though capital employed in this segment has shrunk and so ROCE have also improved. On the veneer segment, we have gone through a bit of a disturbance with the demonetization. We have two new categories, which we are trying to build, one that is called the door business, which has reached a near breakeven at the EBITDA level in Quarter-3. The flooring business still hasn't , I could say its running a bit slow on that. On the veneer space, nine months, if you look at the entire thing, we actually have slipped, we lost sales, thus have lower EBITDA margins on the veneer business and flooring has not picked up as yet, but it is overall looking positive, I cannot give you a figure right now of what margin, obviously our endeavor will be to improve revenues and improve margins.
- Achal Lohade:** Any color you could provide on the other expenses, a drop of 16% YOY, any particular head you can talk about?
- Ashok Sharma:** In terms of other expenses, with the demonetization impact, we have rationalized some of our expenditure which includes the marketing spend and all other expenses. We have a tight check on that, so it is visible in the results.
- Moderator:** Thank you. We have the next question from the line of Prakash Kapadia from Anived Portfolio Management. Please go ahead.
- Prakash Kapadia:** You were broadly talking about growth in the mid-term, just wanted to get a sense from you over the longer term, what will get us to a higher growth, I am not looking at the next few quarters, but beyond that what is it, is it refurbishing cycle, now is getting longer, is it feel-good factor which is missing, how will higher growth come for us because 7-10% is not really the growth internally we also would be running for obviously, one is the environment, you could give us some sense what will drive our, what are you know the variable of factors, which will get us to higher growth?
- Saurabh Mittal:** Obviously, we all want to have higher growth and we have capacities to service the higher growth across segments, we are fairly well positioned across the four business; laminates, veneer, flooring and door to take share from unorganized segment. We have a reasonably significant export market. Flooring and doors are competing with literally no other meaningful player in the same segment. In Veneer, we are competing with nearly 80-85% of unorganized players, so I think the macro shifts of this demonetization, GST, movement of unorganized to organized sector, housing, newer construction markets, various state housing doing better, refurbishment of market happening, more specifications, more projects, our own working in the market place to expand channel partner penetration, increasing specification with architect, developers, kitchen OEMs, office OEM, so I think it is a combination of macro factors and the companies own sales& marketing working towards building the business. The products are in

place, product quality are being appreciated, capacities have been created, we are expanding laminates capacity in order that if there is a growth and the shift is there, we are able to service the demand, I think the infrastructure in terms of capacity, product development and products quality is in place, I think the macro trigger and our own working in the market that is going to drive more growth.

Prakash Kapadia: Last time, I think in the analyst meeting, you had hinted exports we were focusing on increasing our market share, so what is it, is it now getting a base where it is slightly difficult or the end user segment, that is seeing muted demand because we were reasonably positive on the export side couple of months ago?

Saurabh Mittal: On the export side, we are still positive, we are not negative, so if you look at nine months, our exports are up by about 5.9% on consolidated basis because in the subsidiaries, our sales are increasing while we have an improvement in our inventory days, on consolidated basis, we get about 6% you can say safely up right now while on India books level, we have nearly hardly any growth, 1.5-1.3%, we still want to grow the business and we are looking into the business. The export cycles are also a bit long, couple of markets are also going through bit of a challenging times. I think it is a combination of all the factors, but yes over a period of time for the laminates business and for the door business, exports also are already forming a good part of share of business.

Prakash Kapadia: Lastly on the domestic side, you articulated the variables which you are working on, working with architects, designers, consultants, organizing some of these OEM kind of carpentry furniture, so how is that touch point ramp up been over the last few years and how much of more incremental work can we do to create the push side from our end if you can give us some perspective, that will be helpful?

Saurabh Mittal: I can say that it is a continuous process and are we satisfied with what we are doing ourselves now, there is still have much, much more to be done and we are concentrating more on improving the work with architect, designers, consultant, specification, OEM, , but I am not ready with the data right now that how many people are specifying us, what is the project pipeline. Typically, these are things, how many fabricators, how many of them use our products in their catalogue, etc., but yes, that part of our business is being focused on and there are opportunities that are gaps and that will also add as a trigger to our business.

Prakash Kapadia: There is definitely more work which can be done and it is possible, it is just the external demand environment is not so conducive, once that picks up all of these should reflect in?

Saurabh Mittal: Yes, I would say that the external demand and our own, we also have to do our bit, even if external demand picks up, we are not ready obviously, the benefits will not accrue in the company and which we are doing, so I think it is a combination of the internal work of the sales

team and the marketing teams, and the external environment. The combination of two should trigger a good business going ahead.

Moderator: Thank you. We have the next question from the line of Raghavendra Kadia from MH Trading. Please go ahead.

Raghavendra Kadia: In regard to your tax incentives on the Nalagarh plant that are valid till 2019, any plans where once these incentives are over, how would you go ahead with that?

Ashok Sharma: Incentive in terms of excise benefit, as you said correctly, that will be till June 2019. We are manufacturing only the laminate at Nalagarh, wherein we are buying most of our raw material from the organized source, so there is a duty levied on that, and since we are not paying excise duty, so the input credit is also getting lost. Differential excise duty gain is only on the gross margin, which will be somewhere around 5-5.5%. By the time, hopefully, GST will also kicking in, we will evaluate this situation post GST comes in, but loss of margin can be offset by volume increase. Two expansions have happened in Nalagarh, production cost per sheet is also coming down because incremental cost is less in comparison to the existing, so hopefully with the increased volume, we will be able to make up that.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: I was just referring to slide #8 in the decorative veneer and allied segment, now that you have started probably giving gross profit number also, the difference between gross profit and EBITDA is which will be zero, but what goes in between the GP and EBITDA item, and how come gross profit margins are like 3-4% over there, is that typo mistake or something?

Ashok Sharma: That is an error. In terms of gross margin for the nine months, the gross margin for veneer and allied category is 14.97% and EBITDA is as you have seen that.

Saurabh Mittal: Gross margin is about 49.3%.

Kashyap Jhaveri: Because I think 47% I remember the number that probably you gave in the analyst meet sometime back.

Saurabh Mittal: Appreciating you saying that, so gross margin Quarter-3 is 49.3%

Kashyap Jhaveri: In case of veneer and allied, if you look at the volumes, it has been about 0.4 that has been the broadly number that has been there for almost about eight quarters now, so besides demo and probably some bulk orders or let us say inventory bunch of which happened in last year, what is still lagging over there, it is a new product with fairly small base and we were very confident of growing this?

Saurabh Mittal: We are still confident, it is not that we are not confident, it is taking more time. What you said veneer, that has three product categories as you understand, there is veneer, there is flooring, and there is doors. If you go by one and one, nine months on nine months, veneer sales are down by about 13% that is primarily in Q3. If you look at flooring, there is a growth of about 12-14% but base is too small; flooring we were 9.95 crores of sales and in nine months we are now 11.36 crores. In doors though we were 50 lakhs last year, because we started in second half of last financial year and now we are 8.83 crore, door is getting rammed up, flooring is growing but the base is small so growth percent is lower, veneer is where we have de-grown, most of the de-growth has come in the Quarter-3, the pace of growth, the speed can be questioned . Like I said earlier in doors and floors, we do have a fair share of opening orders which will not shift, even for veneers which have postponed for this quarter, for this month rather, so yes, it has been a bit slow in terms of the ramp up.

Kashyap Jhaveri: In veneer apart from demo, anything to do with the customer behavior or let us say acceptance of the product generally that could have driven this decline?

Saurabh Mittal: I think besides the major chunk of demonetization issue, I really cannot put a figure on whether people are moving away from the veneer segment or something, and nearly 80-85% of this segment is unorganized, we really think over a long term view, demonetization and GST should help us., It is about a 2000 crore market and 80-85% is unorganized, so I cannot put a particular reason to demonetization, lower traction on the real estate, premium housing segment is the other reason because veneers are used in premium homes, premium offices, these are the two issues or reasons why this could be lower..

Kashyap Jhaveri: Can you give us a number of ad spends for nine months?

Saurabh Mittal: I will come back to you.

Moderator: Thank you. We have the next question from the line of Asim Barde from Antique Stock Broking. Please go ahead.

Asim Barde: Just had one question, so in your export business, which target markets do you currently serve and which one of these are currently stressful according to you?

Saurabh Mittal: Many of them are stressful, if you see, it is not a country, you could do it as a region basis, so Southeast Asia is our important market, then we have parts of US and South America, parts of UK and Europe, so amongst if you look at the real stress in terms of the sales and exports, primarily is Middle East and Southeast Asia, there is actually a top line de-growth in these two markets, while in US, UK many of these markets were growing.

- Asim Barde:** For Q4 would you expect your nine-month growth rates to continue, what I wanted to know is where will you close your export growth for FY17, you alluded earlier that you have done 7% on the consol level and 1% standalone, so we end the year also at similar growth levels?
- Saurabh Mittal:** I think so, yes.
- Asim Barde:** My second question is on your CAPEX plan, so for FY17 how much is your total CAPEX?
- Ashok Sharma:** FY17, this year will be end up having CAPEX of around 30-35 crores.
- Asim Barde:** Besides your new plant that is coming in by 2Q FY18, are there any other plants maybe just at a very rough stage that you intend to increase capacity or can we presume that your CAPEX cycle will be largely over for the near term by 2Q 18?
- Saurabh Mittal:** Yes.
- Moderator:** Thank you. The next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.
- Gaurav Maheshwari:** Couple of questions, to previous participant you mentioned that Middle East and Southeast Asia have de-grown as far as laminate exports are concerned, would you be able to give a number as to what percentage of our exports would be coming in from Middle East because that is a market at least on the real state side that is slowing down, just to get?
- Saurabh Mittal:** What I said was amongst export markets, these two are important markets, which have de-grown for us in nine months.
- Gaurav Maheshwari:** Middle East and Southeast Asia what is the percentage of our exports?
- Saurabh Mittal:** I would come back with a more exact percent on that, I will have Ashok to come back to you.
- Gaurav Maheshwari:** Okay, can you give ballpark, will Middle East be a substantial portion of our overall exports?
- Saurabh Mittal:** No, Middle East will not be, if you look at Southeast Asia would be roughly you could say 40%-45%. If you add both Middle East and Southeast Asia, you could safely assume 40%-45% approximately between these two.
- Gaurav Maheshwari:** And the remaining 55% would be more of a LATAM?
- Saurabh Mittal:** Not LATAM, North America, UK, Europe a little bit, so we are spread to many nations who buy laminates actually.

- Gaurav Maheshwari:** If I am not wrong, we do not do any white labeling, everything is sold under Greenlam brand?
- Saurabh Mittal:** Greenlam and couple of sub-brands we have.
- Gaurav Maheshwari:** Obviously, but there is nothing which is a white labeling to any of these US, Europe markets?
- Saurabh Mittal:** Literally nothing.
- Gaurav Maheshwari:** Second question pertains to these breakups, if Ashok can give us the breakup between the decorative veneer between the doors and the flooring on the nine month?
- Ashok Sharma:** You want the price?
- Gaurav Maheshwari:** Yes breakup of the 94-odd crore that we did?
- Ashok Sharma:** It is 74 crore in veneer, 11.4 in flooring, and 8.8 in doors.
- Gaurav Maheshwari:** Got it, and can you give the same number for the EBITDA as well?
- Ashok Sharma:** It is 9.4 crore in the veneer, (-9.3) in floors, and -2.2 crore in doors, net (-2.1) crore.
- Gaurav Maheshwari:** When do we expect to start breaking even, what we expect next financial year at least from the exit quarter of Q4 of FY18 to breakeven in these two loss making segments of engineered board flooring and engineered doors?
- Ashok Sharma:** The breakeven as of now in these two categories is within 22% to 25% of the sales depending up on the mix, we expect door to break even in the mid of next year and probably flooring by end of next year or may be beginning of FY19.
- Gaurav Maheshwari:** This is the EBITDA level breakeven are we talking about or it is a PAT including for the depreciation part of it?
- Ashok Sharma:** We are talking about the overall PBT level.
- Gaurav Maheshwari:** One last question pertains to this CAPEX, if I am not wrong, earlier the CAPEX add on was Rs. 50 crore, which was like Rs. 25 crore maintenance CAPEX and another Rs. 25 crore for the Rs. 2 million line that we are setting up for laminates?
- Ashok Sharma:** Around Rs. 25 crore some of the expenditures was supposed to be in this year from the beginning, since the new line will be coming by Quarter-2, so most of that expenditure is postponed or moved to the next year, so out of which around Rs. 30-35 crore which I am talking about nearly maximum around Rs. 5 crore of new line will be spent in this year vis-à-vis earlier

we thought that somewhere around Rs. 15-20 crore will be in this year and some Rs. 5-7 crore reduction in the existing CAPEX, so that put together, we should be somewhere between 30-35.

- Gaurav Maheshwari:** For next year then we can presume to be 45-50 odd crore of CAPEX?
- Ashok Sharma:** Next year, no, we should not have that much because apart from the new press which will be coming up in the Quarter-2 then we will have a routine CAPEX of around 15 crore, so I think we should have similar figure of around 30-35 crore.
- Moderator:** Thank you. Next question is from the line of Nisha Jain from NS Limited. Please go ahead.
- Nisha Jain:** Can you just throw some light on your trade channels like how it has performed this post demonetization?
- Saurabh Mittal:** What you want to know in terms of sales, in terms of growth levels?
- Nisha Jain:** How is the sales and what is the growth, both you can just throw some light?
- Saurabh Mittal:** You could safely assume that sales would mirror our growth, so most of our sales in the domestic space besides the door business is through the channel for the distributors and dealers and surely if our numbers have slipped by 7-8%, so their numbers have also slipped by similar percentages in the market.
- Nisha Jain:** On your laminate business, we have seen that your realization has dropped, but your gross margins have improved, can you just explain, what is the reason behind it, the expansion of gross margin?
- Ashok Sharma:** If you see in case of gross margin, first I will talk about the realization, so realization and as Sir said earlier with domestic realization, it has come down by around 1.8% and export has come down by 6%, export was primarily down on account of compact sales in that category has come down in this year, which normally since a compact also have been treated as one sheet and because it is a bigger sheet and thicker sheet, its realization is higher, so contribution of that has come down, it has an impact on the realization but that not necessarily will have an impact on the cost part.
- Saurabh Mittal:** Basically by reducing those sales, the gross margin expanded and the realization slipped a bit.
- Moderator:** Thank you. Next, we have a follow-up question from the line of Raj Kapadia from Anived Portfolio Management. Please go ahead.
- Raj Kapadia:** Sir, if you could give us some sense on the domestic side of the business, how much of our sales would be B2B order driven kind of business and how much would be through distribution and

through the consumer level of B2C if I may call it and how has that changed over the last couple of years?

Saurabh Mittal: Again, I do not have the exact percentage of it, but I can largely tell you that most of the laminates and the veneer sale are through distributor and dealers. We do have a percent of portion of sales in laminates where we have direct OEM customers, kitchen producers, office furniture producers. In doors, most of the sales are directly through projects to developers, builders, or to direct projects. Flooring is currently more project driven and less retail driven, but eventually I presume the flooring will rather be a 50% channel retail driven and 50% project driven.

Raj Kapadia: Broadly, on a ballpark basis, it is fair to say given that laminate and veneer are the distribution side, so we like two-third, one-third, B2C and one-third being B2B, is that a ballpark number looking okay?

Saurabh Mittal: You could safely assume 70-75% will be distribution, 75% may be on the current scheme of things. As you proceed, door will be more projects, flooring would be half each, we expect the OEM segment of laminates to also grow in the future, we expect the cubicle, bathroom cubicle compact business to also grow in the future, so it could alter a bit but it should see 70%-75% channel and the balance retail.

Raj Kapadia: In terms of the leg of distribution, is there an incremental growth lever assuming demand picks up and demand comes back, is there is a distribution leg which is still left which can enable us to grow faster in a better environment?

Saurabh Mittal: I think penetration with the dealers who are also doing unorganized products, so a gap is there and there are certain markets in certain states where the dominance of the unorganized producers are high, so I think with the GST and demand coming back, this could also be a lever in the growth.

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

Achal Lohade: Just wanted to get your perspective in terms of the revenue growth in these sub-segments actually for the flooring and the doors because we are talking about the EBITDA breakeven, will it be entirely volume driven or some amount of realization improvement as well?

Saurabh Mittal: You could safely assume it will be volume-driven right now.

Achal Lohade: What kind of growth we are looking at kind of next couple of years?

Saurabh Mittal: On these segments?

- Achal Lohade:** Yes.
- Saurabh Mittal:** To breakeven point, we have to do about 20-25% capacity utilization depending on the product mix and the price points, so obviously I think the base is so small, right now growth percent really at least we should be looking at more than doubling next year probably going up beyond that, so I think next two-three years, if we have to do a CAGR kind, we should be looking at our 45% to 50% kind of number.
- Achal Lohade:** Could you also provide the breakup for third quarter, like you provided for the revenue and EBITDA?
- Ashok Sharma:** For veneer, it is Rs. 21.6 crore and floor is Rs. 3.9 crore and door was 4.6 crore.
- Achal Lohade:** How about EBITDA?
- Ashok Sharma:** EBITDA is Rs. 2.7 for veneer, Rs. (-2.1) for floor, and Rs. 0.06 for doors, it is nearly 6 lakhs for doors.
- Achal Lohade:** Any color on the volume growth for the individual segment for laminates and the veneer, broadly?
- Ashok Sharma:** Growth in terms of volume?
- Achal Lohade:** Outlook for next couples of years, what kind of growth we can expect in these two segments?
- Ashok Sharma:** As Sir mentioned, the overall growth as of now which we are looking at around 7-10% for the next year FY18 and probably we need to watch for one or two quarters to see how that pans out.
- Achal Lohade:** That was more at the overall level, I am just curious to understand at the segment level if you could also provide some guidance?
- Saurabh Mittal:** If you look at laminates, we are adding capacity of 2 million is about 15-16%, so lam volume growth should be 8-10%, because the capacity comes in Quarter-2 of next year. Flooring, we have talked about the base is very small, we should be looking at a far higher percent. Veneer, we still want to see how it goes in this quarter and then probably give you that figure, but veneer will also be in the band of may be about 7%-10%.
- Moderator:** Thank you. That was the last question. As there are no further questions, I would now like to hand the conference over to the management for any closing comments.
- Ashok Sharma:** There was a question from Antique in terms of ad spends, so the ad spend in the first nine months of this year was around Rs. 25 crore.



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Saurabh Mittal: We just like to thank all the participants for taking the time off and being with us on the call and really appreciate your time, thank you so much.

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