



“Greenlam Industries Limited Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Greenlam Industries Limited Q2 & H1 FY2022 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 guarantee 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 would now like to 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. Thank you for joining us in the middle of the day. I hope you have had a chance to look at the results and the presentation on the exchanges. I have with me on the call Mr. Ashok, our CFO, Mr. Samarth from Finance Team, and SGA our Investor Relations Team.

On the results, my view is that seeing what we did in the second quarter, we feel that we have done a pretty good job in an extremely difficult environment. We have delivered nearly 40%-45% of volume growth, very close to 60% of value growth. On H1 basis, volume & value growth has been in the range of 70%, if you compare H1FY21 versus H1FY2020. So clearly, we think we have gained market share in this environment.

In the last quarter, the raw material costs were at their peak, and it still continues to rise although not at the same proportion as they rose in Q2. There was a severe supply-side disruption in terms of availability of certain raw materials, longer lead time in imports, longer lead time while we were shipping containers to more than 100 countries worldwide, and as you all know 80% of our RM is imported, also we move a significant amount of boxes inwards and outwards. It was quite a volatile and a difficult environment, but I think as a team despite the challenges we have done well on both inwards and outward, we were able to manage the situation in a fairly good way.

We have passed on price increases in the markets in second quarter. But clearly, price increases have not been passed at the same speed as our RM costs went up, and there has been a lag. We are implementing price increases in Q3FY22, some of which has already been implemented in October-2021, some will be implemented in November-2021. Mr. Ashok will give out more details of that in the call.

So, as we see things, now RM costs hopefully will not spike up in a manner it did in Q2FY22. Although, we still think it is going to go up. Price increases that need to be further implemented have already been announced in the market, which probably will be visible partially in Q3FY22 numbers, and partially in Q4FY22 numbers.

On the demand side, domestic and international markets, we see the demand is good and there is a disruption from several unorganized smaller size, mid-size companies and their ability to supply to the market. Several of them are running at below their capacity considering non-availability of materials, considering significant investments, which they need to do in the business because they stopped getting credits from suppliers and they have disruption to their own customers. So, I think the market situation seems to be favoring companies like us currently in both exports and the domestic market.

We continued our brand-building exercises through Q2FY22. We invested into our markets in terms of certain product launches, catalog launches with the campaign we launched on TVC, digital, etc. So, those long-term initiatives of the company continued as usual in the current quarter. By and large, this is more like an overview of how we think Q2FY22 went for us and the actions probably what we have planned for Q3FY22.

Going ahead clearly the focus is on driving more volume in value added items. Also, try and improve value mix sales increase further which should be a combination of price increases and sales of higher value-added categories. So, that is the direction we are following internally.

On the balance sheet side, the debtors are controlled, we have been able to reduce net working capital. Inventories still seem high in value terms because of RM costs have gone up. So, I think the focus on a disciplined balance sheet continues.

This is all from my side at this moment. I will hand over the call to Mr. Ashok. Ashok will take you through the numbers, and then we can respond to your questions and queries. Ashok over to you.

Ashok Sharma:

Thank you, sir. Good afternoon friends. I will take you through the financial performance for the quarter and then on the half-yearly.

For this quarter, consolidated net revenue grew by 35% on a sequential basis and grew by 57% on a year-on-year basis and stood at Rs.454 Crores as compared to Rs.289 Crores in last year same quarter.

Gross margin degrew by 540 basis points stood at 43.5% in this quarter from 48.9% in Q2 last year, primarily due to rise in raw material costs. On a sequential basis gross margin degrew by 240 basis points. Gross margin in absolute term grew by around 40% to Rs.198 Crores in this quarter as compared to Rs.141 Crores same quarter last year.

EBITDA margin degrew by 390 basis points and stood at 10.1% in this quarter as compared to 14% in Q2 last year. On a sequential basis EBITDA margin degrew by 150 basis points. EBITDA in absolute terms grew by 13% to Rs.46 Crores as compared to Rs.40.5 Crores in Q2 last year.

Net profit for the quarter stood at Rs.20.7 Crores as against Rs.18.5 Crores last year. This is after an exceptional item of Rs.2.6 Crores which in terms of entry tax demand with Rajasthan Commercial Tax Department. The company has availed of the amnesty scheme to clear up the overall demand of Rs.7.4 Crores by paying Rs.2.6 Crores.

Moving on to H1 performance, consolidated net revenue for the half-year grew by 76% on a Y-o-Y basis to Rs.790 Crores from Rs.450 Crores last year. Gross margin degrew by 470 basis points to 44.5% in comparison to 49.2% last year, primarily it is due to rise in raw material cost. Gross margin in absolute term grew by 59% to Rs.352 Crores as compared to Rs.221 Crores last year.

The EBITDA margin remains flat at 10.6% in this half-year as compared to 10.7% last year. EBITDA in absolute term grew by 74% to Rs.84 Crores as compared to Rs.48 Crores last year.

Net profit for this half-year stood at Rs.38 Crores as against Rs.11 Crores in last year.

Moving on to segmental performance:

Laminate segments performed well and laminate segments revenue grew by 34% on a sequential basis and around 60% on a year-on-year basis to Rs.415 Crores from Rs.258 Crores last year same quarter. Volume growth in this quarter stood at 47% on a year-on-year basis.

Domestic laminate revenue grew by around 85% on a sequential basis and 73% on a year-on-year basis. Volume growth for domestic business was 64% on a year-on-year basis. International laminate revenue grew by 6% on a sequential basis and 50% on a year-on-year basis. Volume growth for international business stood at 31%.

EBITDA margin for the quarter stood at 11.5%, a degrowth of 470 basis points on a year-on-year basis and a degrowth of 190 basis points on a quarter-on-quarter basis.

Production volumes were at 4.47 million sheets, having a utilization level of 114%. Sales volume for the quarter stood at 4.74 million sheets and this is the highest in our history. The average realization for laminate in this quarter was at Rs.833 per sheet.

Moving on to half-yearly, laminate revenue grew by 79% to Rs.724 Crores as compared to Rs.404 Crores in last year. Volume growth in this half-year was 70%. Domestic laminate revenue grew by 93% in value term and 85% on volume term. International laminate grew by 70% in value terms and volume was 60%. EBITDA margin stood at 12.3% a degrowth of 110 basis points in comparison to last year. Production volume was 8.74 million sheets, a utilization level of 112%. Sales volume in this half-year was 8.56 million sheets, and the average realization during this half-year was Rs.810.

Moving on to other segments, decorative veneer, and allied segments, which comprise decorative veneer, engineered floors, and engineered doors.

In the decorative veneer, revenue grew by 107% on a sequential basis and grew by 70% on a year-on-year basis to Rs.25 Crores as compared to Rs.14.8 Crores last year same quarter. Revenue for the decorating veneer business grew by 77.5% to Rs.37.3 Crores in this half-year from Rs.21 Crores in the same period last year.

Sales volume growth for this quarter was 71% on a YoY basis and for the half-year, it was 78%. Capacity utilization in this quarter stood at 33% and for the half-year as a whole was 24%. Sales volume stood at 0.35 million square meters and for the half-year, it was 0.51 million square meter. The average realization for this quarter stood at Rs.702 per square meter and for half-year, it was Rs.717 per square meter.

Moving on to Engineered Flooring,

The revenue degrew by around 12% on a year-on-year basis and stood at Rs.8 Crores as compared to Rs.9.1 Crores last year same quarter. For the half-year, the revenue grew by around 24% to Rs.15.4 Crores as against Rs.12.4 Crores last year. Capacity utilization issued at 9% in this quarter and 10% for the half-year.

Moving on to Engineered Door,

The Revenue for the engineered door degrew by around 8.8% on a year-on-year basis and stood at Rs.6.4 Crores in this quarter as against Rs.7 Crores last year. Revenue for the engineered door business grew by 9.9% and stood at Rs.13.3 Crores in this half-year as against Rs.12.1 Crores last year. Capacity utilization in this quarter and for the half-year stood at 20%.

Net debt for the quarter stood at Rs.165 Crores as against Rs.213 Crores at the end of last quarter resulting a reduction.

Net working capital days for this quarter stood at 68 days an improvement of 33 days from quarter one FY2022.

That is all from our side, I would now like to open the floor for the question and answer.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Vipesh Chedda from Lucky Investment. Please go ahead.

Vipesh Chedda:

Sir, I have one question on slide 10 where we put an assessment on the laminates business gross margin and the following slide which is 11. So, the assessment is that the price increase that we had taken was about 5%, and the gross margin reduction in the laminates business is about 120 basis points for H1. Just wanted to understand the extent of the RM inflation that we are seeing, which is melamine and paper, and I presume that paper inflation continues even in this quarter. So, if you could help us understand what is the magnitude of inflation, how behind are we in terms of the price increase, and what extent of price increase will be needed to recoup these lost gross margins in the laminates business.

Saurabh Mittal:

So, firstly, let me respond to you. RM cost increase is happening in paper which is both Kraft and decorative paper. Imports including inward freight costs have significantly gone up too. In chemicals, the costs are going up or have gone up in methanol, phenol, and melamine. As we talk right now paper cost, Kraft paper and Melamine cost still continue to rise in Q3 too. So this is on the RM cost situation. On the price increase in Q3 we are looking at or rather we have announced a domestic price increase of approximately 7% and now this is across various categories, various grades, thicknesses, and in exports, we will be taking an increase of approximately 3% plus any incremental sea freight which comes in. So, this is what we are going to do. Now, will this recoup

the lost gross margins, if you were to compare it with last year, last year's gross margins were shy of 50%. So will this be able to bring us back to that level maybe not. So along with price increases, we are also working in a more focused manner towards improving the value mix of the production, and with volume growth, we think even if there will be a dip in percentage terms of gross margin, but the absolute value will make up some part of it. So this is what we are trying to do right now.

Vipesh Chedda: Is it possible to give an index at the start of the year if it was 100 for the pool of material that we use in laminates what it would be at the end of Q2 and what it is today?.

Ashok Sharma: Several other things impact the price like we use several other grades of materials. In case the composition of that has changed that will have a bearing on the prices. So, it will be difficult in terms of giving the raw material-wise indices in terms of each individual item.

Vipesh Chedda: And this price increase that we have taken or planning to take in Q3FY22 at least on a Q-o-Q basis does it arrest the incremental erosions in the gross margin or the rise in melamine and paper and other cost is also again higher than the price increase that we have taken and we might see some further erosions in your gross margin.

Saurabh Mittal: So typically the data we have, we can predict costs up to three months. The price increase mathematics and announcements were done in the first week of October, but after that too there have been further increases in costs. We expect gross margins should improve now versus Q2, but will it take care of the entire cost increase maybe not because even after that increase there has been further RM cost increase as we talk now.

Vipesh Chedda: Okay, sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Ashish Poddar from Systematix Institutional Equities. Please go ahead.

Ashish Poddar: Sir my question is on your realization. So, if I look at your laminate average realization it is up by around 7% Q-o-Q. Is it because of the richer mix or the price hikes we have taken during the quarter if you can explain that?

Ashok Sharma: Yes, Ashish it is a mix of both. we have mentioned on an individual basis in the domestic we have taken up to 5%-6% in Q2FY22 and in the export around 3.5% in the quarter one and quarter two each.

- Ashish Poddar:** For the first half or for the quarter.
- Ashok Sharma:** Practically most of this will be in Q2 because the first half in the domestic market was shut. So practically even the figure is for the H1, but all of this will be in the Q2.
- Ashish Poddar:** And in terms of your mix do you see any change in the consumer or your market demand because I believe last year for some time it was the thinner grade which was selling more. So do you see that trend had changed and now it is returning to normalcy?
- Saurabh Mittal:** No, so thinner grade was introduced at a point when COVID was on and market were shut, in H1 of last year times. So, yes we are doing some thinner grades now also, but clearly, the focus is on driving the value items which is showing good traction and we believe that in the current quarter we will see further improvement in the per sheet realization which will be a combination of price hikes and value mix improvement.
- Ashish Poddar:** Okay. Thank you and all the best, sir.
- 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 observation. Is it that you are taking a lesser price hike in the export segment and higher in the domestic segment? Is that the pattern you are seeing?
- Saurabh Mittal:** No, so what is happening in exports from January 2021, we had passed on all incremental freight to the customer. So from a customer's perspective effective increase of the customer in exports, it is equal or higher than domestic so in many markets across North America, South America, Europe, UK, the freight increase, the differential freight which we passed on is anything between 10% to 15% to the customer. So effectively if you see the export price increase, the increase we are getting is one part, but the increase the customer is paying is another story which we need to also review. So, we have taken one increase in exports of about 3%- 3.5% we are doing another increase of about 3%- 3.5% and if you were to load all the incremental freight on the effective cost increase to the customer it probably is equal or higher than the domestic market. We are actually facing that challenge also in exports with so many destinations as sea freights are getting completely out of control it is a big challenge for us to be able to pass on the entire RM cost as well as the entire incremental freight to the customer.
- Abhishek Ghosh:** And just a continuation to that in tiles we are seeing that Morbi is facing issue in terms of exports, container availability, also there is some amount of cost disadvantage as

some of the exports from the western countries is probably becoming more lucrative. Is that something also that you are seeing in your part of the business because of the higher cost inflation and the freight is making business uncompetitive or disadvantageous.

Saurabh Mittal: So clearly freights have gone up and it is putting pressure on the business, but as you probably are aware most of our markets, businesses, customers are long-standing customers these are largely branded businesses and these are businesses we want to support for a longer time to come. So clearly we continue to serve our customers and our markets considering the newer capacity which will hopefully come up in next financial year. So the pressure will keep going on but we cannot exit markets we created.

Abhishek Ghosh: Sir the new capacity comes in any broad timelines would you like to share in terms of timeline.

Saurabh Mittal: Yes, We are in the last leg of approvals coming in, in terms of environment clearances that have been done. We are in the last leg of it and we had said that in Q3 FY23 we should be up and running with the additional capacity. We are still focusing on that. It might get deferred by a month or two but at the moment we are still keeping that target on. We are in the final stage of closing all the approvals and layouts have been finalized etc. Once we get approval we should be up and running focused on building the plant.

Abhishek Ghosh: And just one last question from my side and I will come back in the queue is how is the unorganized market reeling under this pressure of an overall increase in working capital requirements and are you seeing constant market share gains by the branded players as you did mention about it, but if you can just probably elaborate a little bit on that.

Saurabh Mittal: Again, I cannot back up all of this with the data of the unorganized players but what we hear from the market and what we know from our sales teams and our dealers and distributors, etc. that several unorganized factories are running at far lower capacity utilization, they are running short of raw materials, and there is working capital pressure on them to fund their suppliers. Earlier they use to get credit from vendors, and now they do not get any credit, they have to make advance payments or immediate payments. So clearly I think there is significant stress on the unorganized companies in the market.

Abhishek Ghosh: Thank you so much, sir. I will come back in the queue for more questions.

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

Sneha Talreja: Sir just wanted to check and in a continuation, to Abhishek's point we can see that in the domestic part you have crossed the revenue run rate in the domestic market for Q4 also and your market share gains are fairly visible. In exports, we see that the Q4 and Q1 were better. So what I wanted to understand that Morbi has been telling us that whenever things open up and trade opens up there will be a huge amount of exports happening which will be incremental. I just wanted to take a broader opinion from you also would that be the case for us when more country open up we would be then be able to do more exports and when can we see the share of exports going up further that is the first question.

Sneha Talreja: I just wanted to understand your vision on the exports front, since there are container availability issues, freight rate issues, travel bans at this particular point in time. So what do you feel that where this division could head once these issues are sorted?

Saurabh Mittal: clearly we are focused on the export business from a long-term perspective and there will be some challenges in that journey and we are committed to our markets and considering like I was telling Abhishek, considering the new investment we have planned in Andhra Pradesh with the new capacities we want to build and can add quickly there on a Brownfield basis eventually. The export market is really where we think we will keep our presence active and alive and I think that market will also keep growing once we have more capacity so currently, I think the challenge is less of market opportunity, it is more about our capacity so we want to get our capacity up and running and I think we have stretched the freight containers availabilities as at some point this will get normalized because this is not sustainable as we understand.

Sneha Talreja: In continuation to this particular point sir you said that our capacity is pretty much exhausted which is visible in the numbers and Morbi is actually or maybe other organised players are also running at far lower utilization at this particular point and clearly under stress. Is there any point we could get those assets on maybe though we can look out for outsourcing opportunity at this particular point or there is a big amount of shift happening from unorganized to organized as we have seen outsourcing opportunities in other segments like tiles also? So just wanted to have that view from you.

Saurabh Mittal: So our sense in laminates business is that the outsourcing model is not very successful and not very viable also because the cost of production at our factory and our plants are lower than the cost of production of the unorganized players if they use our raw material specification because with the quality of raw materials and compliances they are actually cheaper otherwise it is not as if they are more cost-efficient than us and so our

focus currently is getting our approvals sorted out and start building a new plant because once we start we have seen that in the past also when we built the Himachal plant from the construction date to production in nine months we were up and running. Our focus is on getting our capacity ready and getting to the market rather than diluting ourselves and focusing on an outsourcing model because to put the outsourcing model in place will cost raw materials, manpower, etc. will also consume time. We have focused on creating our capacity right now.

Sneha Talreja: Sure got that. And before that is there any ready facility or something that we could get as an asset for sale is there any possibility or we will have to kind of focus is only on the new capacity expansion.

Saurabh Mittal: No, focus is on the new capacity only. So there are a lot of companies, factories who are not able to run their businesses but their plates to produce a laminate, the raw materials I think all of that also is unorganized today and the lead time for lot of plates, decorative paper is running between six to eight months. So even if one were to put that whole program into play it would consume a lot of time with our quality standards.

Sneha Talreja: Sure, got this. Thanks a lot, sir, and all the best.

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

Achal Lohade: My first question was in exports are these exports on FOB or CIF.

Saurabh Mittal: Some of our exports are FOB, some are CIF. In CIF the average freight until December 2020 is what we are absorbing but incremental freight from January 2021 has been passed on to the customers.

Achal Lohade: And what would that mix be the CIF customer mix would that be like 50%, 60%, 80%, or would that be just 20%.

Ashok Sharma: Most of it is on a CIF basis so I can say that it will be around 60%, 70%.

Saurabh Mittal: Because In the subsidiary company in US and UK, Europe, we are actually clearing the containers and then billing to customers, so from India specific at the consol level it is CIF.

Achal Lohade: Of the total exports are all of the exports are under yourbrand or are there any white label exports also which happens there.

Saurabh Mittal: We actually do not do any white labels. We do some OEM sales in Europe but by and large, there is all our brand but within the brand, you have commodity liners, etc., but majorly it is our brand there.

Achal Lohade: And in terms of the RM you did talk a little bit on that but is it possible to get some clarity in terms of the extent of cost inflation in the Kraft paper and deco paper so is it possible to get some sense on a Y-o-Y basis where the prices are like what is the cost inflation in those three, four key raw material items including chemicals.

Ashok Sharma: Yes, Achal as I explained earlier also that within Kraft paper also we use various grades of Kraft paper which are at various price points and costs are increasing in various grades regularly. We also do value engineering in terms wherein the mix of what we were using let us say one year, two years back might change so the actual cost increase to our books may not reflect the price increases which has happened as of now but on a ballpark figure if I get the various grades of Kraft paper it will range between 5% to 12%/13% and for deco papers again the various grades of deco paper are being used and in few price increase is quite high but you can say that around 10%, 12% price increase in the decor paper on an average. In the chemical on a Y-o-Y basis, this price hike ranges from 70% to 100% also.

Achal Lohade: And broadly what would be the cost mix in terms of the Kraft, deco, and chemicals.

Ashok Sharma: Roughly the paper constitutes around 65% and chemicals constitute around 35%. a couple of percentage points here and there might happen depending upon the price rise in the individual segment.

Achal Lohade: Understood, and in terms of the floor and door business now we understand that the demand situation is fairly good on the real estate front, and for the building material categories but I see we are still having pretty much-subdued volumes actually in both flooring and door business so can you elaborate a bit on as to how you look at this now since we are seeing a pickup on the aggregate demand.

Saurabh Mittal: On the flooring part you are actually right we have seen improved inquiries, improved quotations being sent to customers, several meaningful orders have also been finalized for doors and we believe that this should improve as we move ahead as more orders are being finalized. So clearly I think we should look better going ahead.

Ashok Sharma: And Achal one more thing in this I would like to add that again these floors and doors have a mix of domestic and exports both so presently what Saurabh Sir said that we are

seeing better inquiries and even the sales are also going ahead, on the import side again the freight and all these play a major role. So where probably demand is a bit subdued, but in the domestic segment, we are seeing as you rightly said that we are getting good inquiries and hopefully that will convert into sales that are started happening in this quarter also and going forward also it will bring more revenue.

Achal Lohade: Got it and is it in terms of the number can we then look at a profitable bottom line or EBITDA for the floor and door business by the fourth quarter would that be a fair assumption.

Saurabh Mittal: Well that is what we also want to do and in-floor, the door also but unfortunately all the raw material is imported and freight cost price increases are happening on the wood veneer side also in terms of timber cost, the fire-rated particle boards we buy, the wood we buy, is backed up with the freight increase. We are increasing prices there also rather we have increased prices in the wood veneer segment which is decorative ply, flooring, and doors too. The demand side in the domestic market looks good, RM costs have risen, freight has risen, exports of flooring will become challenging going ahead because we never had our own brand it was all like a white label thing and freight as a percent has significantly gone up to the market for shipping, so there is a little bit of a shift in the dynamics there too but clearly I think the focus is now completely on the domestic market and we have passed on increase in those market.

Achal Lohade: Understood and just one last clarification if I may you said 90% of our raw material is imported is it the case for the industry as well or it is only for us which is at a higher end.

Saurabh Mittal: I said 80% of the RM is imported or pegged for imports if I may say so. Decorative paper for us and the nearest competition I think will be a very, very similar situation in the laminate business, in the wood category we do not have a comparable player. In the wood and allied category, decorative veneers, flooring, the door you could assume 100% RM is imported, base ply, veneer, particleboard, timber, everything is imported.

Achal Lohade: So when you said imported or pegged to import price I was more keen to understand in terms of physical imports because that is where the freight will have a disproportionate impact would that be a right way of looking at it.

Ashok Sharma: No Achal, it will be similar, let us say in the case of formaldehyde which is getting converted from the methanol to formaldehyde, so whether I buy directly or my supplier buys and converts it for me that cost will be passed on to the market as my supplier also

depends upon imports. So that is what we were telling where prices are pegged to import and even let us say in case of phenol which we are buying locally some of the quantities we are buying locally from deepak phenolic but those prices are pegged to imports. So if the prices in the international market goes up or down that similar impact we will have locally so that is what we mean to say that either direct import or pegged to import the price inflation or increase or decrease happens similarly in terms of imports.

Achal Lohade: One more question sir in terms of the volumes we said we have operated at 114% capacity utilization for the second quarter is that the best we can achieve till the time we have the capacity in place.

Saurabh Mittal: Well you can assume a few percentage points can be improved in terms of volume we are at a near peak in number of sheets.

Achal Lohade: Right, but the product mix can improve as you said in terms of the value.

Saurabh Mittal: Yes.

Achal Lohade: Got it, all right. Thank you so much.

Moderator: Thank you. The next question is from the line of Udit from Yes Securities. Please go ahead.

Udit: Just one small clarification, How much price increase are we taking in domestic and export markets in the following quarters.

Ashok Sharma: Yes, for the laminate around 7%- 7.5%, and for the export will be in the range of around 3%.

Udit: And sir will it be possible to provide the margin distinction for the quarter in exports and the domestic business?

Ashok Sharma: No, the margin is very difficult to calculate on an individual basis because for both domestic and export sales, same raw material is being used in both the plants, so it is very difficult to give the margin individually for domestic and international business.

Udit: Okay that is it for my end.

Moderator: Thank you. The next question is from the line of Nikhil Aggarwal from BT Capital. Please go ahead.

Nikhil Aggarwal: Sir, I wanted to understand where do you import your raw material from?

Ashok Sharma: Nikhil various raw material comes from various sources so let us say that the design paper comes primarily from Europe, chemicals can come from any source because it is a commodity it can come from US, Europe, the Middle East it can come from any source, wood again mostly comes from Europe. So various raw materials will be coming from several countries across the globe.

Nikhil Aggarwal: And sir I wanted to understand like the board has approved the issuance of non-convertible debentures up to 150 Crores so that was the expansion that is taking place.

Ashok Sharma: So it will mostly be used to shore up our cash on the balance sheet and it will be used mostly into the upcoming plans and projects.

Nikhil Aggarwal: And sir can you give me the breakup of your export markets? The proportion to which you export like Middle East, Europe.

Ashok Sharma: Difficult to give the country-wise detail but we export to almost across the globe we have a presence from South America to Australia we have a presence in almost all the meaningful markets so it is difficult to point any particular country or countries. Offhand I do not have country-wise details with me but we have a presence all across the globe.

Nikhil Aggarwal: Sir, just one last question I wanted to understand your distribution channel in India. is it Retail or is it private builders?

Ashok Sharma: We follow the distribution led model in terms of we will have distributors and which I am talking about laminate and primarily laminate we will have distribution across the country and from those distributors the material will go to retailers and even to the builders and within all this some of the category of material which will be going directly to builder let us say doors and floors and apart from this we will have direct billing to some of the bigger OEMs. Otherwise mostly we will follow the distribution-led model wherein from company sells to distributor and from distributor to retailers/dealers to retailers.

Nikhil Aggarwal: And sir the OEMs, the margins in the OEMs will certainly be less than the direct distribution channel, right.

Saurabh Mittal: Yes.

Nikhil Aggarwal: Okay, thank you, sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holding. Please go ahead.

Bhavin Chheda: After this price increase of 7% and 2% what you mentioned in export and domestic will the gross margin be back to 48%, 49% which we used to be, or do you need more price hike.

Saurabh Mittal: Bhavin that was planned, but after we announced to increase prices further, costs have also gone up. So, I do not think we are back to that 48%, 49% but I do think we will improve versus what we did in Q2 and to improve the margins beside the price increase like we said we are also trying to drive more value-added item sales, more texture sales so that is also a very conscious effort we are taking. let us see what the outcome will be because the RM cost situation is so surprising.

Bhavin Chheda: And again, the paper prices are rising after a long time so it does not look to be coming down in a hurry because chemical prices are too volatile, but I think the paper prices are increasing gradually so what is your view on the same?

Saurabh Mittal: We had factored in some cost pressure and we have passed on some increases as you know so the focus really is what we can do is to maximize volume which we are doing, maximize the value mix within that volume because it still is an adequate opportunity we have to improve the value mix within the production output we are doing and we are increasing prices I think all of this combined should clearly improve revenues and also improve the percentage of gross margin and in value terms, gross margins should do far better.

Bhavin Chheda: And I was saying your decorative veneers and light products blended NSR which saw a dip on a quarter-on-quarter and Y-o-Y basis so any significant mix change there since you had a very sharp volume growth there.

Saurabh Mittal: The revenues have gone up in the wood and allied segment there too we have had cost pressures as the gross margin has come down versus last year not versus Q1 so clearly

volumes have gone up costs have increased in that business also in veneers we have done a 10% price increase to be implemented in this quarter, we have done an increase in the flooring business, the exports committed orders we have by and large completed, faced the challenge with sea freights going up so the model there also is a little bit going through a little bit of stress with 100% imports with RM costs and sea freights going up and the time lag between costs going up and prices being passed.

Bhavin Chheda: Saurabh my question was blended realizations have gone down so what is the reason there?

Saurabh Mittal: Yes, it is because of the product mix.

Bhavin Chheda: Because of the product mix.

Saurabh Mittal: Yes, product mix.

Bhavin Chheda: Okay. Otherwise, you have taken a hike in this division also.

Saurabh Mittal: This division we had taken a hike but the cost has gone up beyond that so we have announced one more hike in flooring and the veneer business also and in flooring by and large and we have increased prices for the exports market also which either will get accepted by the customers or we would not get the export business for it.

Bhavin Chheda: Thank you Saurabh and best of luck.

Moderator: Thank you. The next question is from the line of Rupesh Jain from Intel sense Capital. Please go ahead.

Rupesh Jain: I just have one question in one of the older calls you said that India is getting far more competitive in laminates or of some other markets it is getting difficult or uncompetitive for them to set up a new capacity. Can you please give more color how in terms of this competitiveness and then another question to that is in times we see that Morbi is kind of going crazy in exports? So something like that can happen in laminates and will organized players benefit if there is a shift happening. Thank you.

Ashok Sharma: Yes. In terms of your last question related to several manufacturers of tiles are very, very active and whether these things can happen in laminates. We believe there are a sizable number of such producers in the laminate category are already there in Gujarat but most of them are focused on the domestic segment because unlike tiles laminate segment is different. There are design specifications as well as their quality parameters

which need to change. What we believe the organized segment players have a clear advantage in the export market in comparison to the unorganized segment and I think they will continue to gain more market share. That is the reason that you will not find many players in the export segment mostly organized players are doing the exports.

Rupesh Jain:

And in terms of competitiveness sir if you can throw some more color?

Ashok Sharma:

The competitiveness in the current scenario where the raw material prices are on the continuous run and in most of the cases there are cash flow issues. Also because for most of these suppliers availability of raw material is tight and with all this suppliers have started demanding advance payments or have reduced credit terms. Infact we have also faced this in some of the cases where suppliers have started demanding immediate cash or they have reduced the credit terms which was there previously All this is putting more pressure both on the demand side as well as on the cash flow side on the unorganized segment. The bigger players because of their sheer size and balance sheet they are able to continue in this scenario whereas the smaller players are facing more crunch both in the demand as well as on the cash flow side.

Rupesh Jain:

I was asking more from an international competition point of view.

Saurabh Mittal:

Our international competitiveness, are you asking about us competing with international producers or is it that I think in one of the calls we said, which is correct also, that internationally setting up new plants or expanding newer capacities is far more expensive than doing that in India and that brings more competitive advantages to the domestic Indian producers is that what you are talking about.

Rupesh Jain:

Yes, and what has changed sir, my question is why the competitiveness has changed.?

Saurabh Mittal:

See in three months not much has changed I think it is just the same so within a quarter there is not much change I am saying it is moving in that direction.

Rupesh Jain:

Do you see secular export growth for Indian organized industry over the next three to five years.

Saurabh Mittal:

Well if you ask me I think that is global if the businesses and companies have the right capacities and right market openings and a right positioning, right products for these markets with the right programs I think it is doable because globally capacities actually are not getting added and we are getting more competitive in terms of gaining more scale which means we have more opportunities to serve customers across different sizes,

different colors, different texture plates. If the production cycles are quicker the churn is quicker so I think there is an opportunity whether it becomes 15% year-on-year it is 10%-12% volume is something one has to see that but I think from a possibility it looks good.

Rupesh Jain: Thank you so much, sir.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: Sir in the past we had alluded that the sustainable growth in the laminate business is around 10% to 12% but in the first half of FY2022 we have seen a significant growth obviously on a lower base. Do we see any structural shift in terms of our growth targets on an annual basis in the coming few years or the shift which we are seeing right now from unorganized to organized is kind of just intermittent and it might come back after a year or year-and-a-half down the line once the freight cost RM price stabilized.

Saurabh Mittal: So. I do not know the answer to this honestly. What I do know is that in the laminates business once you gain more market share and once unorganized companies supply chain gets broken, shade cards, catalogs samples, displays from the dealers distributor shops get removed and some other brands or companies display catalogs come up in those spaces, the ability to bring back the market share for anybody whether it is unorganized or an organised company is extremely difficult. So, once you gain that market share whether it will be there permanently that way or it will again come back to the old ways I do not have an answer to it. I hope that it is permanently that way but we have to just see how this goes.

Akhil Parekh: And second on the Capex side I mean in next year's third quarter of 2023 we are having Additional capacity. from an industry perspective are we seeing any major capacity additions in the laminate business which can lead to a price disruption?

Saurabh Mittal: Actually Not. Laminate industries anyway has supply which is more than demand and so clearly I think capacity being available is one thing and running the capacity is another thing because to run the capacities you need the right program, the right markets so I do not think we are looking at that.

Akhil Parekh: Just from the financial perspective if you can give the number of Capex guidance for this year and next year and second on the working capital side and if we have reached around 80 days for the first half of the year is this number sustainable.

- Saurabh Mittal:** I will have Ashok to respond that.
- Ashok Sharma:** For this year we are expecting around Rs.35 Crores- Rs.40 Crores of Capex which includes some of the normal Capex, and some of the Capex which was announced last year but will get completed this year. For the next year, the routine Capex for the existing plants will be in the range of around Rs.20 Crores- Rs.25 Crores, and apart from that we have already announced Capex for a new plant in the south so we have announced that around one and a half years before and we are in the process of seeing since due to this delay whether we need to increase our capacity or not, but as of now we have announced that around Rs.175 Crores of Capex for the new plant.
- Saurabh Mittal:** And of that 175 crores, 50 crores has already been done and to answer your other question which was is the working capital sustainable yes, it is sustainable.
- Akhil Parekh:** Got it thanks a lot and best wishes.
- Moderator:** Thank you. The next question is from the line of Shrenik from JM Financial. Please go ahead.
- Shrenik Bhachawat:** Could you please explain why the employee costs and other expenses are on the higher side in this quarter.
- Saurabh Mittal:** Why are they higher or are they on the higher side.
- Shrenik Bhachawat:** They are on the higher side quarter-on-quarter basis so could you just explain that.
- Saurabh Mittal:** Yes on the employee cost there was an appraisal cost which was done in Q2 so some of that also has an impact on Q1 in Q2 it was announced in the quarter of this financial year. On other expenses, there have been some launch costs of product categories, etc., which should to some extent get normalized going ahead.
- Ashok Sharma:** And the traveling cost has also gone up since now the economy is opening up and now the physical traveling has also it started. So that cost is also there which was subdued in the entire last year and in the first quarter of this year. But as a percent, all these costs are within control or lower than previous years.
- Sahrenik Bhachawat:** Sure, sir, and also for the new plant new south plant will there be no Capex in this current year it will be fully for FY2023.

- Saurabh Mittal:** On that Capex approximately until now close to 50 Crores already has been spent. Maybe in Q4, there will be Capex as advances as you see things now for contractors get mobilized, equipment advances, etc.
- Sahrenik Bhachawat:** How much can that be expected to be?
- Ashok Sharma:** In the range of around Rs.30 Crores- Rs.40 Crores.
- Sahrenik Bhachawat:** So total Rs.70 Crores Capex can be looked in this year right.
- Ashok Sharma:** For the existing, I said around Rs.35 Crores, Rs.40 Crores and for the new unit it will be in the range of around Rs.30 Crores to Rs.40 Crores.
- Sahrenik Bhachawat:** Sure sir. Thank you.
- Moderator:** Thank you. We take the last question from the line of Nikhil Aggarwal from BT Capital. Please go ahead.
- Nikhil Aggarwal:** I wanted to understand like is there any growth guidance and margin guidance going forward for this year.
- Ashok Sharma:** Nikhil in this scenario it is difficult to give the guidance but what we can see is that the Q2 numbers are achievable and if everything goes the way it is going so then probably we will be able to achieve the numbers near to this, on the top line.
- Nikhil Aggarwal:** Okay. Thank you, sir.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Saurabh Mittal:** Thank you, everyone. Thank you for your time. Thank you for your questions. Ashok and Samrat are available if there are any questions post the call you can reach out to them. Thanks a lot.
- Moderator:** Thank you. On behalf of Greenlam Industries Limited, we conclude today's conference. Thank you all for joining, you may now disconnect your lines.